

# State of Michigan

## Comprehensive Annual Financial Report



**Fiscal Year Ended September 30, 2004**  
**Jennifer M. Granholm, Governor**  
**Prepared by Office of the State Budget**

In recognition of its 125th anniversary, we have featured the Michigan State Capitol on the cover and several pages throughout the report.

Construction of the Capitol began in 1872 and was dedicated to the people of Michigan January 1, 1879, for a modest cost of \$1.4 million. In 1992, a three-year project to restore the Capitol to its original glory was successfully completed.

It is one of America's finest examples of Victorian decorative painting. Almost every surface of the inside is hand-painted. The building is a masterpiece of craftsmanship. One of the most spectacular sights in the Capitol is the view of the inner dome from the first floor (photo shown inside).

Today, the Capitol enjoys a well-deserved reputation as one of the nation's most important historic buildings. Every year, over 125,000 individuals, representing every state in the nation and many foreign countries, take guided tours.

This document and other related information may be accessed via the Internet at [www.michigan.gov/ofm](http://www.michigan.gov/ofm).

This publication was produced at a cost of \$6,776 for printing or \$7.97 per copy. A total of 850 copies were printed using recycled paper. This report is required by law, Public Act 431 of 1984, as amended.



*State of Michigan*  
*Comprehensive Annual Financial Report*

Fiscal Year Ended September 30, 2004

**JENNIFER M. GRANHOLM**  
Governor

**MARY A. LANNOYE**  
State Budget Director  
Office of the State Budget

**MICHAEL J. MOODY, CPA**  
Director  
Office of Financial Management

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STATE OF MICHIGAN

JENNIFER M. GRANHOLM  
GOVERNOR

OFFICE OF THE STATE BUDGET  
LANSING

MARY A. LANNOYE  
DIRECTOR

December 27, 2004

The Honorable Jennifer M. Granholm, Governor  
Members of the Legislature  
People of the State of Michigan

As required by Article 9, Section 21, of the State Constitution and Section 494, Public Act 431 of 1984, as amended, we are pleased to submit the *State of Michigan Comprehensive Annual Financial Report* (SOMCAFR) for the fiscal year ended September 30, 2004.

### **INTRODUCTION TO THE REPORT**

**Responsibility:** The Office of the State Budget, Office of Financial Management, prepares the SOMCAFR and is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including disclosures. To the best of our knowledge and belief, the information contained in the SOMCAFR is accurate in all material respects and reported in a manner that fairly presents the financial position and results of operations of the State primary government and component units for which it is financially accountable. All disclosures necessary to enable the reader to gain a reasonable understanding of the State's financial affairs have been included.

**Adherence to Generally Accepted Accounting Principles:** As required by State statute, we have prepared the financial statements contained in the SOMCAFR in accordance with generally accepted accounting principles (GAAP) applicable to state and local governments, as promulgated by the Governmental Accounting Standards Board (GASB). The State also voluntarily follows the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the contents of government financial reports, and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting.

**Report:** The SOMCAFR is divided into three major sections: introductory, financial, and statistical:

- The introductory section includes this letter, the State's organization chart, and the list of principal officials.
- The financial section includes: the independent auditor's report on the Basic Financial Statements; Management's Discussion and Analysis (MD&A) which provide an introduction, overview, and analysis to the Basic Financial Statements; the Basic Financial Statements, which present the government-wide financial statements and fund

financial statements for governmental funds, proprietary funds, fiduciary funds, and component units, together with footnotes to the Basic Financial Statements; Required Supplementary Information other than MD&A, which presents budgetary comparison schedules and information about infrastructure assets; and the supplemental financial data which includes the combining financial statements and schedules.

- The statistical section includes such items as trend information, information on debt levels, and other selected economic and statistical data.

**Internal Control Structure:** The Office of the State Budget is responsible for the overall operation of the State's central accounting system and for establishing and maintaining the State's internal control structure. The system of internal control has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement.

All financial transactions of the State primary government are recorded in the central accounting system, except for the Michigan Unemployment Compensation Funds, Attorney Discipline System, the State Employees' Deferred Compensation Funds, the State Employees' Defined Contribution Retirement Fund, and the Michigan Education Savings Program. Many of the essential control features are decentralized, such as the preparation and entry of expenditure transactions into the central accounting system. Consequently, the Office of the State Budget relies upon the controls in place at the various State departments and agencies.

The Management and Budget Act requires each principal department to appoint an internal auditor and to maintain adequate internal control systems. Each department is also required to periodically report to the Governor on the adequacy of its internal accounting and administrative control systems and, if any material weaknesses exist, to provide corrective action plans and time schedules for addressing such weaknesses. This reporting is required on or before May 1 of each odd numbered year, effective as of the preceding October 1.

The discretely presented component units generally operate outside the State's central accounting system and are responsible for establishing and maintaining their own separate internal control structures.

Independent Auditors: The Office of the Auditor General (OAG) is the principal auditor of the SOMCAFR. The OAG also relies on the opinions of outside public accounting firms, particularly for component unit financial statements (such as the Michigan State Housing Development Authority and 10 of the State's universities), the larger pension and other employee benefit trust funds, and the Unemployment Compensation funds. The purpose of the OAG's audit is to provide reasonable assurance that the Basic Financial Statements for the fiscal year ended September 30, 2004 are free of material misstatements. The OAG concluded that the Basic Financial Statements for the fiscal year ended September 30, 2004 are fairly presented in accordance with GAAP and issued unqualified opinions.

In addition to the annual audit of the SOMCAFR, the OAG also performs periodic financial statement and performance audits of the various State departments, agencies, and institutions of higher education. The Auditor General also has primary responsibility for conducting audits under the federal Single Audit Act of 1984. Pursuant to Michigan Public Act 251 of 1986, these audits are conducted biennially for applicable State departments, agencies and component unit authorities, and result in separately issued audit reports.

Management's Discussion and Analysis (MD&A): GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

## **PROFILE OF THE GOVERNMENT**

Michigan was admitted to the Union as the 26<sup>th</sup> state in 1837. The State is governed under the Constitution of 1963, as amended.

Executive Branch: The Executive Branch consists of 19 principal departments. Sixteen principal departments are headed by commissions and/or directors appointed by the elected governor. Two principal departments, Attorney General and State, are headed by elected officials and one, Education, is headed by an elected board.

Judicial Branch: The Judicial Branch consists of the Supreme Court, Court of Appeals, Court of Claims, and the State's circuit, district, probate, and municipal courts. In addition to its judicial duties, the Supreme Court is responsible for the general administrative supervision of all courts in the state. The Supreme Court also establishes rules for practice and procedure in all courts.

Legislative Branch: The Legislative Branch consists of the Senate, House of Representatives, and Office of the Auditor General. The Senate, which consists of 38 elected members, and House of Representatives, which consists of 110 elected members, enact the laws of Michigan. The Office of the Auditor General conducts post financial and performance audits of state government operations

Reporting Entity: The financial reporting entity of the State includes all of the funds of the primary government as

well as component units for which the State's elected officials are financially accountable. The transmittal letter, MD&A, and the financial statements focus on the primary government and its activities. Although information pertaining to the component units is provided, their separately issued financial statements should be read to obtain a complete overview of their financial position.

Budgetary Reporting and Control: For the State primary government operating funds (i.e., the General Fund and annually appropriated special revenue and permanent funds), the State budgets projected revenues and expenditures and calculates fund balance for budgetary purposes in accordance with GAAP. Public Act 431 of 1984, as amended, prohibits the State from budgeting for an ending fund balance deficit in an operating fund. If an actual deficit is incurred, the Constitution and Act 431 require that it be addressed in the subsequent year's budget. If accounting principles change, Act 431 requires the State to also implement such changes in its budgetary process.

Compliance with the final updated budget for the annually budgeted operating funds of the State primary government is demonstrated in the budget and actual comparative schedules and notes in the SOMCAFR. In addition, subsequent to the publication of the SOMCAFR, the State releases "Statewide Authorization Dispositions", a report providing line item appropriation details, the legal level of budgetary control, for the General Fund and budgeted operating funds.

## **ECONOMIC CONDITIONS AND OUTLOOK**

The current U.S. economic recovery is now three years old, having begun in November 2001. Over the past six quarters, real annualized GDP growth has exceeded 3.0 percent each quarter. In five of the past six quarters, consumption growth has been strong and equipment investment has grown at double-digit rates. Light vehicle sales have remained strong throughout the recovery, boosted by record incentives and low financing rates. Supported by historically low interest rates, new and existing home sales have remained strong as well.

However, employment growth lagged the recovery. Employment declined each quarter during the recovery until the fourth quarter of 2003. Employment has grown in each of the past four quarters, but that growth has been uneven. Employment reported tepid growth the last quarter of 2003 and moderate growth in the first quarter of 2004; employment then surged in the second quarter of this year before moderating in the third quarter. Employment recorded a strong increase in October, but employment growth was tepid in November. Continued job growth will be key to sustained economic growth.

Despite recent growth, U.S. payroll employment in November was still about 400,000 jobs below its March 2001 peak. Further, some sectors are still struggling. The manufacturing sector has been particularly hard hit. U.S. manufacturing employment declined for 42 straight months, before reporting solid gains in early 2004. However, in recent months, manufacturing employment has declined slightly. Rapid productivity gains have allowed firms to

reduce payroll employment even as they have continued to increase output.

2004 Michigan Economic Review: Michigan's economy relies heavily on the performance of the manufacturing sector in general and the auto industry specifically. Given extremely weak Big 3 market share along with continued supply rationalization among vehicle suppliers, Michigan's employment performance has been below the national average. Substantial productivity gains in the manufacturing sector and vehicle industry have also contributed to Michigan's sub-par employment performance.

Over the past three years, the annual average for wage and salary employment has fallen. Through October, state employment is down compared to a year ago. From Michigan's employment peak in June 2000 compared to October 2004, Michigan has lost more than 300,000 jobs. By this time after the 1990-1991 recession, Michigan employment had risen nearly 200,000 jobs above its pre-recession peak. Michigan manufacturing employment has declined even more sharply. Since June 2000, Michigan manufacturing employment has fallen by slightly more than 200,000 jobs. However, while both overall and manufacturing employment have trended down since June 2000, the rate of that decline has slowed. Through October, state employment has increased in two of the last three months.

Michigan's annual average unemployment rate for 2003 was 7.3 percent, the highest level since 1992. The most recent monthly unemployment reading in October 2004 was 6.6 percent. The state's unemployment rate is down 1.0 percentage point from a year ago but substantially above its lows, around 3.0 percent, during the expansion of the late 1990s. Wages and salaries grew 0.6 percent year-over-year in the second quarter of 2004. Overall personal income grew 3.1 percent year-over-year in the second quarter.

The Department of Treasury and House and Senate Fiscal Agencies met on December 3, 2004, and reached a consensus for the 2004 and 2005 revenue and economic forecasts. The following summarizes the consensus economic forecast for 2005.

2005 U.S. Consensus Economic Outlook: Conference parties reached agreement on the outlook for several key economic variables. According to the Consensus forecast, real GDP is forecast to grow 3.2 percent in 2005, after growing a projected 4.4 percent in 2004. U.S. light vehicle sales are forecast to continue to be relatively steady with sales expected to be 16.7 million units in 2004 and 16.8 million units in 2005. The import share of those sales is expected to continue to rise, increasing from 19.9 percent in 2003 to 20.1 percent in 2004 and 20.6 percent in 2005. The U.S. unemployment rate is expected to decline from 6.0 percent in 2003 to 5.5 percent in 2004 and 5.4 percent in 2005. Interest rates are projected to rise over the forecast horizon but still remain at historically low levels as the Federal Reserve continues to raise the target federal funds rate at a measured pace. The Treasury bill rate is forecast to rise from 1.4 percent in 2004 to 2.4 percent in 2005. As measured by the consumer price index (CPI), inflation is expected to remain moderate with consumer prices rising a projected 2.6 percent, down slightly from 2.7 percent in 2004.

As businesses gain confidence in the sustainability of the expansion, business investment is expected to remain strong and the labor market is projected to firm up. With a firmer labor market and continued low interest rates, consumption is projected to remain solid. At the same time, higher oil prices, rising interest rates, and an end to the tax cuts will act to slow growth in 2005.

2005 Michigan Consensus Economic Outlook: With continued U.S. economic growth, smaller declines in manufacturing sector employment and improvements in the private non-manufacturing sector, Michigan employment is expected to grow each quarter, with employment gains averaging a modest 8,000 jobs per quarter.

For 2004, employment is estimated to have declined by 49,000 jobs (1.1 percent) – the fourth straight annual Michigan employment decline. With slight growth in 2005, employment is forecast to average 0.3 percent higher than 2004 employment. After falling from 7.3 percent to 6.7 percent in 2004, Michigan's unemployment rate is forecast to rise to 6.9 percent in 2005.

Michigan personal income is projected to rise 4.5 percent in 2005, after increasing an estimated 2.7 percent in 2004. In 2005, wages and salaries income is forecast to grow 3.7 percent after rising slightly (0.7 percent) in 2004. As measured by the Detroit CPI, consumer prices are projected to increase 2.4 percent.

The Department of Treasury and House and Senate Fiscal Agencies will meet again on January 13, 2005, for a Consensus Revenue Estimating Conference. At that conference, the agencies will reach consensus economic and revenue forecasts for 2005 and 2006.

## **MAJOR INITIATIVES AND FUTURE PROJECTS**

Education: Despite tough economic times, the State remains committed to quality education at all age levels. Over \$14.5 billion, or 37 percent, of the State's total FY 2004-2005 budget is devoted to education. This includes funding for early childhood programs, the K-12 system, universities, community colleges, and student financial aid.

As part of its overall goal of improving student achievement, the State continues to place emphasis on learning in the critical preschool years by investing in programs that provide quality early childhood learning, childcare, and parental education. The State has also instituted a program to identify and assist schools that are considered high priority for improvement in academic achievement.

Health and Human Services: Protecting Michigan's most vulnerable citizens is also a high priority. For FY 2004-2005, the two departments primarily responsible for health and human services, the Department of Community Health and Family Independence Agency, account for \$14.1 billion, or 36 percent, of the overall State budget.

While the State administers a variety of health and human services programs, Medicaid is the most extensive, accounting for \$8.6 billion of the FY 2004-2005 budget. These funds allow the State to provide health care services for over 1.3 million low-income citizens.

**Economy:** State government is committed to growing its economy by sustaining and creating business investment and jobs in Michigan. One of the key initiatives in this area is the Technology Tri-Corridor, which fosters growth in life sciences, advanced automotive technologies, and homeland security industries through funding and resource collaboration, focusing on emerging technology sectors. Financing is available through a competitive proposal process for life sciences, advanced automotive technologies and homeland security companies and researchers.

Other initiatives related to the economy include the Michigan Timely Application and Permit Service (MiTAPS), which provides one-stop shopping for businesses to identify and apply for permits needed to do business in Michigan; the Michigan Broadband Development Authority, which promotes broadband deployment and utilization in Michigan to stimulate economic development and organizational efficiency; and the Cool Cities Pilot Project, aimed at keeping and attracting young, educated, and skilled workers.

**Hometown Security:** Michigan is now benefiting from the services of 89 additional Michigan State Police Troopers as a result of the recent completion of the 120<sup>th</sup> Trooper Recruit School. This is the first trooper recruit school held since 2001. With the addition of these troopers, 1,095 troopers are assigned to posts located throughout the state.

Michigan is also in the midst of a variety of efforts to control the growth in the prison population without sacrificing the safety of its citizens. As a result of these efforts, the State has been able to forego the reopening of two closed prisons, saving \$60 million. It also expects to close an additional prison during FY 2004-2005 by shifting prisoners from an older, less cost-efficient facility to a newer, underutilized facility.

**Better Government:** State government continued to become more efficient during FY 2003-2004 by implementing administrative measures that reduced spending by \$185 million. Most of the savings resulted from ongoing improvements in contracting practices, such as reducing the number of sole source contracts, eliminating contract extensions, and negotiating price reductions. Other examples of savings included continued reductions in the number of cars in the State's fleet, debt restructuring, voluntary

rent reductions for leased facilities, and decreased energy consumption.

The State also streamlined routine human resources, benefits, and payroll functions by opening a centralized service center that provides services and support to State employees in most executive branch departments. Establishment of the centralized service center is expected to save the State \$25 million over the next five years by reducing the number of staff needed in departmental human resources offices.

In order to ensure that Michigan citizens get maximum value for their future tax dollars, the State has modified its budget development process to incorporate a "budgeting for outcomes" approach for the FY 2005-2006 budget year. Budgeting for outcomes differs from the traditional approach by focusing on buying results for citizens rather than cutting or adding to last year's budget. The goal is to get the results citizens need at the price they are willing to pay.

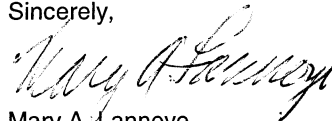
## **AWARDS AND ACKNOWLEDGEMENTS**

**Certificate of Achievement:** The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Michigan for its SOMCAFR for the year ended September 30, 2003. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report whose content satisfies both generally accepted accounting principles and applicable legal requirements.

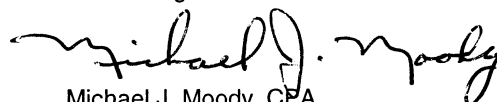
A Certificate of Achievement is valid for a period of one year only. The State has received a Certificate of Achievement for 17 consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

**Acknowledgments:** The preparation of this report requires the collective efforts of the management and staff of the Accounting and Financial Reporting Division, Office of Financial Management; the chief financial officers, chief accountants, internal auditors and their staffs from all State agencies; and the management and staff of the Office of the Auditor General. We sincerely appreciate the dedicated efforts of all of these individuals that have allowed Michigan to maintain its position as a national leader in quality and efficiency for financial reporting.

Sincerely,



Mary A. Lannoye  
State Budget Director



Michael J. Moody, CPA  
Director, Office of Financial Management

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of Michigan

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2003

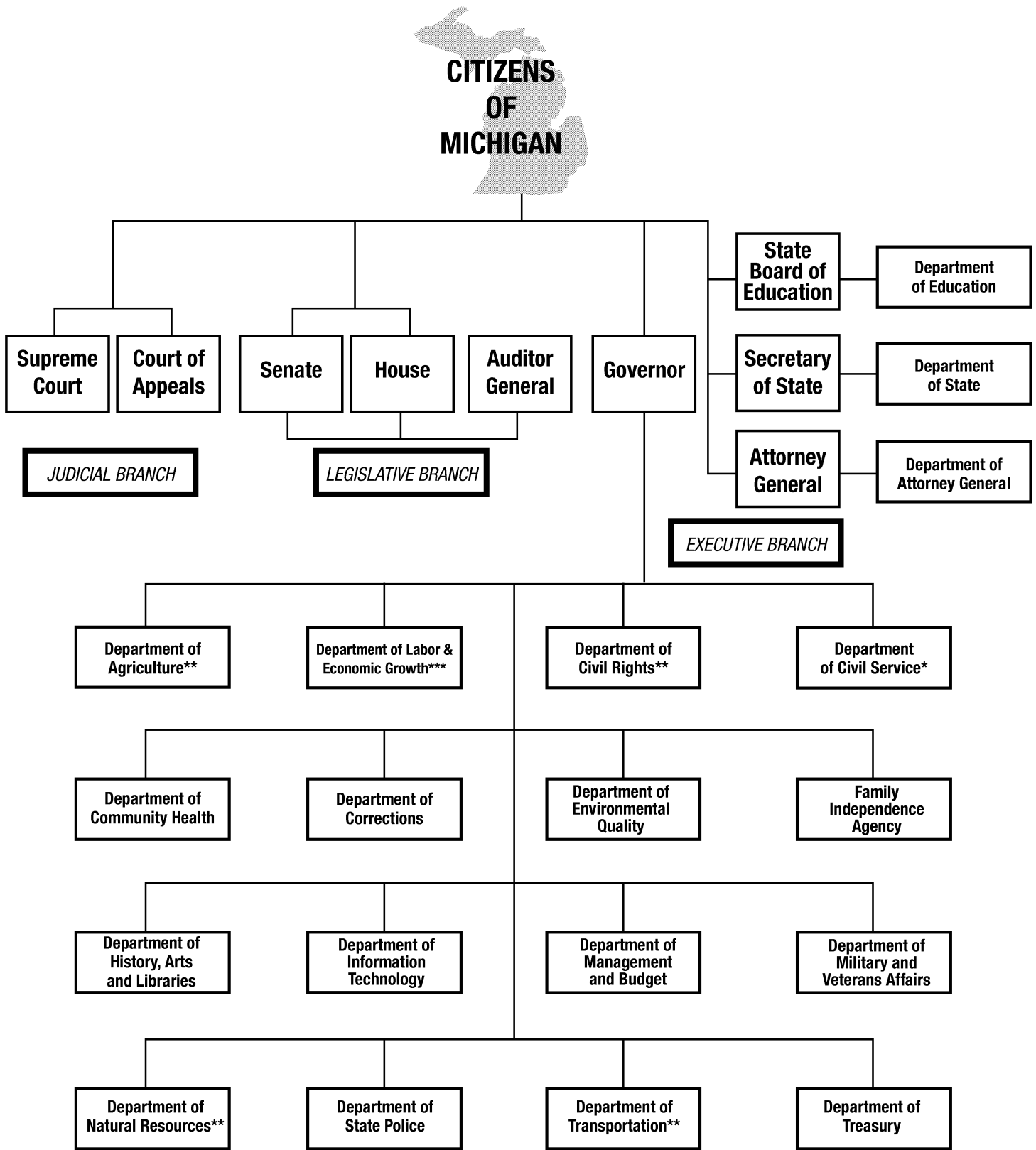
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

# STATE OF MICHIGAN ORGANIZATIONAL STRUCTURE



\* Has Commission appointed by Governor

\*\* Has Commission appointed by Governor, confirmed by Senate

\*\*\* Formerly the Department of Career Development and Department of Consumer & Industry Services

STATE OF MICHIGAN  
PRINCIPAL STATE OFFICIALS

**JUDICIAL BRANCH**

Supreme Court Justices  
Honorable Maura D. Corrigan, Chief Justice  
Honorable Michael F. Cavanagh, Justice  
Honorable Marilyn Kelly, Justice  
Honorable Stephen J. Markman, Justice  
Honorable Clifford W. Taylor, Justice  
Honorable Elizabeth A. Weaver, Justice  
Honorable Robert P. Young, Jr., Justice

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Majority Leader of the Senate  
  
Honorable Rick V. Johnson  
Speaker of the House of Representatives  
  
Thomas H. McTavish  
Legislative Auditor General

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Honorable John D. Cherry Jr., Lt. Governor  
  
Honorable Mike Cox, Attorney General  
  
Honorable Terri Lynn Land, Secretary of State

State Board of Education  
Kathleen N. Straus, President  
John C. Austin  
Elizabeth W. Bauer  
Carolyn L. Curtin  
Marianne Yared McGuire  
Herbert S. Moyer  
Reginald M. Turner  
Eileen L. Weiser  
Honorable Jennifer M. Granholm (Ex Officio)  
Thomas D. Watkins, Jr.  
Superintendent of Public Instruction

Michigan Commission of Agriculture  
William Pridgeon, Chair  
James E. Byrum  
Douglas E. Darling  
Ann Jousma-Miller  
James E. Maitland  
Dan Wyant, Director, Department of Agriculture

Civil Rights Commission  
Gary Torgow, Chair  
Mohammed Abdrabboh  
Mark Bernstein  
Albert Calille  
Tarun K. Sharma  
Valerie P. Simmons  
Margaret M. Van Houten  
Linda V. Parker, Director, Department of Civil Rights

Civil Service Commission  
Susan Grimes Munsell, Chair  
F. Thomas Lewand  
Sherry L. McMillan  
James P. Pitz  
James D. Farrell, Director, Department of Civil Service

Janet Olszewski, Director  
Department of Community Health

David C. Hollister, Director  
Department of Labor and Economic Growth

Patricia L. Caruso, Director  
Department of Corrections

Steven E. Chester, Director  
Department of Environmental Quality

Marianne Udow, Director  
Family Independence Agency

William Anderson, Director  
Department of History, Arts and Libraries

Teresa M. Takai, Director  
Department of Information Technology

Mitch Irwin, Director  
Department of Management and Budget

Mary A. Lannoye, State Budget Director  
Office of the State Budget

Major General Thomas G. Cutler, Director  
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Gerald R. Hall Jr.  
John M. Madigan  
Franklin C. Wheatlake  
Vacant

Rebecca A. Humphries, Director  
Department of Natural Resources

Col. Tadarial J. Sturdivant, Director  
Department of State Police

Transportation Commission  
Ted B. Wahby, Chair  
Linda Miller Atkinson  
Betty Jean Awrey  
Robert Bender  
Vincent Brennan  
John W. Garside  
Gloria J. Jeff, Director  
Department of Transportation

Jay B. Rising, State Treasurer



Senate Chamber from Entry



House of Representatives Chamber



## **II FINANCIAL SECTION**

### **INDEPENDENT AUDITOR'S REPORT MANAGEMENT'S DISCUSSION AND ANALYSIS BASIC FINANCIAL STATEMENTS**



STATE OF MICHIGAN  
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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Jennifer M. Granholm, Governor  
Members of the Legislature

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan, principally as of and for the year ended September 30, 2004, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the State Lottery Fund, Michigan Unemployment Compensation Funds, Michigan Employment Security Act - Administration Fund, State Building Authority - Debt Service Fund, State Building Authority - Capital Projects Fund, Attorney Discipline System, State Sponsored Group Insurance Fund, State Employees' Deferred Compensation Funds, State Police Retirement Fund, State Employees' Retirement Fund, Public School Employees' Retirement Fund, Judges' Retirement Fund, State Employees' Defined Contribution Retirement Fund, Michigan Education Savings Program, Michigan State Housing Development Authority, Michigan Municipal Bond Authority, Mackinac Bridge Authority, Mackinac Island State Park Commission, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan State Hospital Finance Authority, State Bar of Michigan, Central Michigan University, Western Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, and Saginaw Valley State University. Those financial statements reflect total assets and revenues or additions of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as follows:

<u>Opinion Unit</u>	<u>Percent of Total Assets</u>	<u>Percent of Total Revenues/Additions</u>
Governmental Activities	2.0%	1.5%
Business-Type Activities	98.3%	85.0%
Aggregate Discretely Presented Component Units	92.2%	94.6%
State Lottery Fund	100.0%	100.0%
Michigan Unemployment Compensation Funds	100.0%	100.0%
Aggregate Remaining Fund Information	92.5%	64.3%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for these component units and funds, are based solely upon the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL

THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

The Honorable Jennifer M. Granholm, Governor  
Members of the Legislature  
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accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the basic financial statements, the State of Michigan adopted Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and Governmental Accounting Standards Board Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*.

The management's discussion and analysis on pages 5 through 12, budgetary comparison schedules and corresponding notes on pages 86 through 89, and information about infrastructure assets reported using the modified approach on pages 90 and 91 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Michigan's basic financial statements. The combining and individual fund statements and schedules - non-major funds listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections listed in the table of contents have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General  
December 27, 2004



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the State of Michigan's (the State's) financial performance, providing an overview of the activities for the fiscal year ended September 30, 2004. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

### HIGHLIGHTS

#### **Government-wide:**

- At September 30, 2004, the State's assets exceeded its liabilities by \$17.2 billion.
- The State's unrestricted net assets were (\$954.8) million as of the close of the year. A positive balance in unrestricted net assets represents excess assets available to meet ongoing obligations. A negative balance means that it would be necessary to convert restricted assets to unrestricted assets if all ongoing obligations were immediately due and payable.
- The State's total net assets decreased by \$1.0 billion (5.7 percent) during fiscal year 2003-2004.

#### **Fund Level:**

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$3.3 billion. Of this amount, \$495.5 million is *unreserved fund balance* and, therefore, available to fund general-purpose expenditures of the respective funds in future years. The remaining \$2.8 billion is reserved for specific purposes, such as education and transportation.
- The State's three major governmental funds, the General Fund, Counter-Cyclical Budget and Economic Stabilization Fund, and the School Aid Fund, all closed the fiscal year with positive fund balances, totaling a combined \$1.3 billion. In the General Fund and School Aid Fund, the entire fund balance, \$1.2 billion and \$74.1 million, respectively, is reserved for specific purposes. In the Counter-Cyclical Budget and Economic Stabilization Fund, the entire fund balance of \$81.3 million is unreserved.
- The State's proprietary funds reported net assets at year-end of \$1.3 billion. This represents a decrease of \$602.8 million (31.8 percent) compared to the prior year-end.

#### **Long-term Debt:**

- The State's total long-term debt (bonds and notes payable) as of September 30, 2004 was \$6.2 billion. This is an increase of \$255.1 million since the last fiscal year-end. The increase represents the net difference between new issuances, payments, and refundings of outstanding debt.

More detailed information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page 7.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

#### **Government-wide Statements (Reporting the State as a Whole)**

The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the State, as a whole, and about its activities that should help answer this question: How has the State's financial position, as a whole, changed as a result of this year's activities? These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets (pages 14 and 15) presents all of the State's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets measure whether the State's financial position is improving or not.

The Statement of Activities (pages 16 and 17) presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both statements report three activities:

- *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The Legislature, the Judiciary, and the general operations of the Executive departments fall within the governmental activities.
- *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. Lottery tickets, liquor purchases, and the State's unemployment compensation services are examples of business-type activities.
- *Discretely Presented Component Units* – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The State has 14 authorities and 10 universities that are reported as discretely presented component units of the State.

This report includes two schedules (pages 21 and 23) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) on the appropriate government-wide statements. The following summarizes the impact of transitioning from modified accrual to accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Certain tax revenues that are earned, but not available, are reported as governmental activities, but are reported as deferred revenue on the governmental fund statements.
- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements.
- Internal service funds are reported as governmental activities, but reported as proprietary funds in the fund financial statements.
- Certain pension trust funds have been funded in excess of their annual required contribution. These assets are recorded only in the government-wide statements.
- Deferred issue costs are capitalized and amortized as governmental activities, but reported as expenditures in the governmental fund statements.
- Unless due and payable, long-term liabilities, such as capital lease obligations, compensated absences, litigation, bonds and notes payable, and others only appear as liabilities in the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 41 of this report.

### **Fund Financial Statements (Reporting the State's Major Funds)**

The fund financial statements begin on page 20 and provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for a particular purpose. In addition to the major funds, page 96 begins the individual fund data for the non-major funds. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different accounting approaches.

- *Governmental funds* -- Most of the State's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the State's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial

resources that can be spent in the near future to finance the State's programs. These funds are reported using *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds include the General Fund and special revenue, capital project, debt service, and permanent funds.

- **Proprietary funds** -- When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery Fund. Internal service funds report activities that provide supplies and services for the State's other programs and activities - such as the State's Vehicle and Travel Services. Internal service funds are reported as governmental activities on the government-wide statements.
- **Fiduciary funds** -- The State acts as a trustee or fiduciary for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on page 32. These funds, which include pension (and other employee benefit), private-purpose, and agency funds, are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

#### Additional Required Supplementary Information

Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. The Required Supplementary Information includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles (GAAP) fund balances at fiscal year-end, and condition and maintenance data regarding certain portions of the State's infrastructure.

#### Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds, and non-major discretely presented component units. These funds are added together, by fund type, and presented in single columns in the basic financial statements, but are not reported individually, as with major funds, on the governmental fund financial statements.

#### FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

The State's combined net assets decreased \$1.0 billion (5.7 percent) over the course of this fiscal year's operations. The net assets of the governmental activities decreased \$437.7 million (2.7 percent) and business-type activities had a decrease of \$600.5 million (or 33.9 percent).

Changes in Net Assets For Fiscal Year Ending September 30 (In Millions)						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003 *	2004	2003 *	2004	2003*
Current and other non-current assets	\$ 9,601.8	\$ 9,368.1	\$2,189.2	\$2,860.3	\$11,791.0	\$12,228.4
Capital assets	18,694.8	18,669.0	.6	.6	18,695.4	18,669.6
<b>Total assets</b>	<u>28,296.6</u>	<u>28,037.1</u>	<u>2,189.8</u>	<u>2,860.9</u>	<u>30,486.4</u>	<u>30,898.0</u>
Current liabilities	4,359.5	4,042.1	543.2	551.9	4,902.7	4,594.0
Long-term liabilities	7,941.5	7,561.8	475.6	537.4	8,417.1	8,099.1
<b>Total liabilities</b>	<u>12,301.1</u>	<u>11,603.9</u>	<u>1,018.8</u>	<u>1,089.3</u>	<u>13,319.9</u>	<u>12,693.2</u>
Net assets:						
Invested in capital assets, net of related debt	14,962.9	14,996.9	.6	.6	14,963.5	14,997.5
Restricted	1,993.3	1,886.3	1,164.5	1,765.7	3,157.9	3,652.0
Unrestricted	(960.7)	(450.0)	5.9	5.3	(954.8)	(444.7)
<b>Total net assets</b>	<u>\$15,995.6</u>	<u>\$16,433.3</u>	<u>\$1,171.0</u>	<u>\$1,771.5</u>	<u>\$17,166.6</u>	<u>\$18,204.8</u>

\* The prior year columns have been restated to reflect the implementation of GASB Technical Bulletin 2004-1 and the addition of the Attorney Discipline System.

## Michigan

- The largest component, \$15.0 billion, of the State's net assets reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Restricted net assets are the next largest component, comprising \$3.2 billion. These represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The State's unrestricted net assets were (\$954.8) million as of the close of the year. A positive balance in unrestricted net assets represents excess assets available to meet ongoing obligations. A negative balance means that it would be necessary to convert restricted assets to unrestricted assets if all ongoing obligations were immediately due and payable.

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

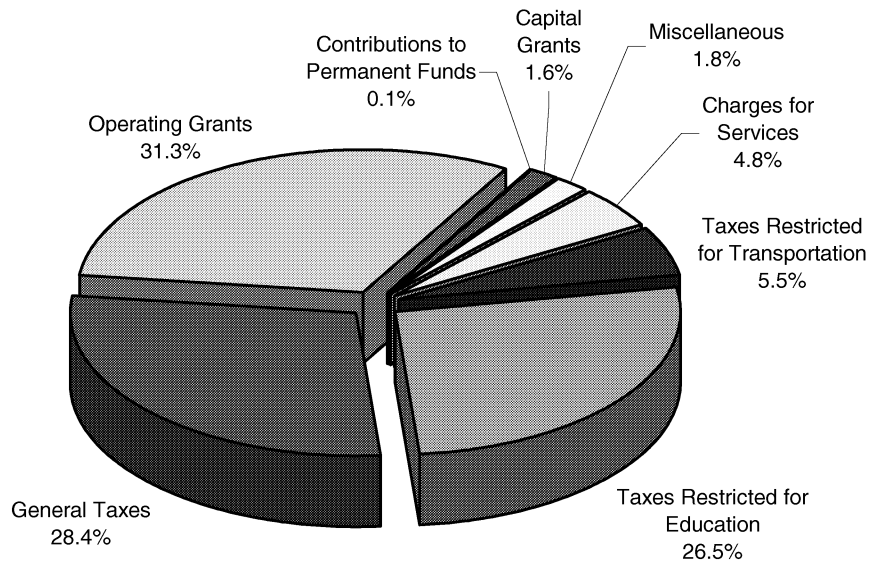
### Changes in Net Assets For Fiscal Year Ending September 30 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 1,801.4	\$ 1,782.9	\$4,500.6	\$4,039.8	\$6,302.0	\$5,822.7
Operating grants	11,783.5	11,290.7	76.8	135.1	11,860.2	11,425.8
Capital grants	618.4	546.7	-	-	618.4	546.7
General revenues						
General taxes	10,672.9	10,133.7	12.0	11.3	10,684.9	10,145.0
Taxes restricted for educational purposes	9,958.3	10,098.3	-	-	9,958.3	10,098.3
Taxes restricted for transportation purposes	2,077.0	2,021.1	-	-	2,077.0	2,021.1
Unrestricted investment and interest earnings	9.7	14.1	1.2	1.1	11.0	15.2
Miscellaneous	677.8	813.6	-	-	677.8	813.6
<b>Total revenues</b>	<b>37,599.1</b>	<b>36,701.1</b>	<b>4,590.6</b>	<b>4,187.4</b>	<b>42,189.7</b>	<b>40,888.5</b>
<b>Expenses</b>						
General government	1,748.6	1,714.8	-	-	1,748.6	1,714.8
Education	14,418.9	14,840.0	-	-	14,418.9	14,840.0
Family independence services	3,985.9	3,891.7	-	-	3,985.9	3,891.7
Public safety and corrections	2,256.4	2,159.5	-	-	2,256.4	2,159.5
Conservation, environment, recreation, and agriculture	674.4	612.6	-	-	674.4	612.6
Labor, commerce, and regulatory	920.1	901.6	-	-	920.1	901.6
Health services	9,605.2	9,362.9	-	-	9,605.2	9,362.9
Transportation	3,104.8	2,792.8	-	-	3,104.8	2,792.8
Tax expenditures	702.7	707.8	-	-	702.7	707.8
Intergovernmental - revenue sharing	1,305.1	1,451.4	-	-	1,305.1	1,451.4
Interest on long-term debt	247.0	281.4	-	-	247.0	281.4
Liquor Purchase Revolving Fund	-	-	544.7	515.2	544.7	515.2
State Lottery Fund	-	-	1,391.4	1,152.8	1,391.4	1,152.8
Attorney Discipline System	-	-	4.1	-	4.1	-
Michigan Unemployment Compensation Funds	-	-	2,349.4	2,473.8	2,349.4	2,473.8
<b>Total expenses</b>	<b>38,969.1</b>	<b>38,716.4</b>	<b>4,289.5</b>	<b>4,141.8</b>	<b>43,258.6</b>	<b>42,858.2</b>
Excess (deficiency) Before Contributions and Transfers	(1,370.0)	(2,015.3)	301.1	45.5	(1,068.9)	(1,969.8)
Contributions to permanent fund principal	30.8	31.9	-	-	30.8	31.9
Transfers	901.6	843.8	(901.6)	(843.8)	-	-
<b>Increase (decrease) in net assets</b>	<b>(437.7)</b>	<b>(1,139.6)</b>	<b>(600.5)</b>	<b>(798.2)</b>	<b>(1,038.2)</b>	<b>(1,937.8)</b>
Net assets – beginning restated	16,433.3	17,572.9	1,771.5	2,569.8	18,204.8	20,142.6
Net assets – ending	<b>\$15,995.6</b>	<b>\$16,433.3</b>	<b>\$1,171.0</b>	<b>\$1,771.5</b>	<b>\$17,166.6</b>	<b>\$18,204.8</b>

**Governmental Activities:**

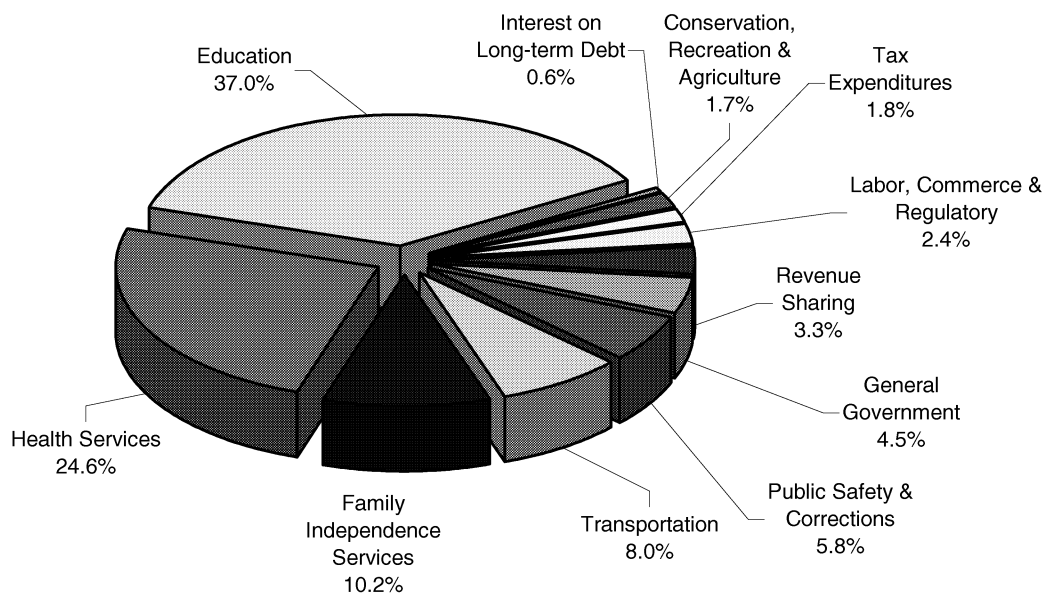
The following chart depicts revenues of the governmental activities for the fiscal year:

**Revenues - Governmental Activities for  
Fiscal Year Ending September 30, 2004**  
(\$37.6 billion)



The following chart depicts expenses of the governmental activities for the fiscal year:

**Expenses - Governmental Activities for  
Fiscal Year Ending September 30, 2004**  
(\$39.0 billion)



**Business-type Activities**

The business-type activities' net assets decreased by \$600.5 million (33.9 percent) during the fiscal year. Factors contributing to these results included:

- The increase in unemployment in the State resulted in the Michigan Unemployment Compensation Funds finishing the fiscal year with a decrease in net assets of \$573.1 million (34.5 percent) to \$1.1 billion.
- The State Lottery Fund's net assets decreased by \$28.1 million (26.7 percent), which resulted from a decrease in the market value of investments that Lottery holds to fund future payments due for lottery prizes.

**FINANCIAL ANALYSIS OF THE STATE'S FUNDS**

As the State completed the year, its governmental funds reported fund balances of \$3.3 billion. Of this total amount, \$495.5 million constitutes unreserved fund balance, which is available for appropriation for the general purposes of the funds. The Budget Stabilization Fund (\$81.3 million) and the transportation-related funds (\$337.1 million) comprise a significant portion of the unreserved fund balance. The remainder of fund balance is reserved and is not available for new spending because it has already been dedicated for various commitments, such as capital outlay projects.

**General Fund**

The General Fund is the chief operating fund of the State. At the end of fiscal year 2003-2004, the General Fund unreserved fund balance was transferred to the Budget Stabilization Fund and reserved fund balance was \$1.2 billion. Total fund balance diminished during the fiscal year by \$140.9 million (10.8 percent), primarily because transfers to other funds increased by \$120.8 million.

**General Fund Budgetary Highlights:**

During fiscal year 2004, the State was again faced with difficult budget challenges resulting in significant expenditure reductions. In December 2003, Executive Order 2003-23 was issued authorizing expenditure reductions of \$200.9 million and transfers of unexpended balances and excess revenues from restricted revenue sources totaling \$147.9 million to be used as general fund, general purpose revenues. In addition, the executive order reduced work project and capital outlay project carry-forward authorization from prior years by \$31.0 million.

In addition to the executive order spending reductions, the original budget was amended by various supplemental appropriations and appropriation reductions. The following summarizes the differences between the original and final budget amounts:

- General purpose tax revenues of \$7.9 billion were \$101.4 million less than the original estimate of \$8.0 billion.
- Restricted revenue inflows of \$13.6 billion were \$312.9 million more than the estimated \$13.3 billion.
- The Merit Award Trust Fund made transfers to the General Fund totaling \$63.0 million as part of the Executive Order 2003-23.
- The General Fund transferred \$81.3 million to the Budget Stabilization Fund at the end of the year.

Differences between the final budget and actual spending result from spending authority lapses of \$122.7 million and restricted revenue authorized but not spent of \$8.9 million.

The Department of Community Health finished the year with a net overexpenditure of \$38.2 million and the Family Independence Agency had line-item overexpenditures of \$1.1 million. All other agencies finished the year with lapses.

In December 2004, the consensus revenue agreement indicated that the General Fund revenues are expected to decline in the next fiscal year. Another consensus revenue conference will be held in January 2005. Corresponding reductions in spending and other measures will help ensure that the fund balance remains positive if revenues decline as expected.

**School Aid Fund**

Fund balance at September 30, 2004, totaled \$74.1 million, a decrease of \$41.1 million (35.7 percent) from the prior year. Revenues and transfers to the fund totaled \$12.3 billion. Expenditures to school districts and other costs decreased by \$43.5 million from the previous year and totaled \$12.3 billion. During the year, the School Aid budget was adjusted by prorating school aid payments. The school aid payments were reduced by \$131.1 million.

**Counter-cyclical Budget and Economic Stabilization Fund**

Fund balance increased by \$81.3 from the previous year as a result of the transfer from the General Fund.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets:** At the end of the fiscal year 2003-2004, the State had invested \$18.7 billion, net of accumulated depreciation, in a broad range of capital assets (see the table below). Depreciation charges for this fiscal year totaled \$182.6 million.

Capital Assets as of September 30  
(Net of Depreciation, In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Land	\$ 3,117.0	\$ 3,103.1	\$ -	\$ -	\$ 3,117.0	\$ 3,103.1
Land improvement	86.5	75.7	-	-	86.5	75.7
Buildings and improvements	2,047.4	2,088.2	-	-	2,047.4	2,088.2
Equipment	144.5	163.9	.6	.6	145.0	164.4
Infrastructure	11,964.6	11,831.3	-	-	11,964.6	11,831.3
Other	19.8	18.9	-	-	19.8	18.9
Subtotal	17,379.8	17,281.0	.6	.6	17,380.4	17,281.6
Construction in progress	1,315.0	1,388.0	-	-	1,315.0	1,388.0
<b>Total</b>	<b>\$18,694.8</b>	<b>\$18,669.0</b>	<b>\$ .6</b>	<b>\$ .6</b>	<b>\$18,695.4</b>	<b>\$18,669.6</b>

The most significant impact on capital assets during the year resulted from the road and bridge construction and repair projects.

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include the State's network of public transportation roads and bridges, including ancillary assets, such as guard rails, signs, lighting, culverts, fencing, and the like. The State is responsible for maintaining approximately 27,534 lane miles of roads and 4,724 bridges (spans in excess of 20 feet).

The State has consistently improved the assessed condition of roads over the past five years. The State's goal is to have no more than 30% of roads in "poor" or "very poor" condition. The most recent condition assessment, completed for calendar year 2003, indicated that 20.0% of roads were considered poor or very poor.

The State's bridges have assessed conditions that are better than the established benchmarks. The most recent assessment (2003) indicated that the condition of the bridges had improved from the condition reported for 2002.

The State's fiscal year 2004-2005 capital outlay appropriations have not been enacted except for the rent payments made to the State Building Authority totaling \$250.8 million. Unspent capital outlay authorizations of \$463.0 million that existed at September 30, 2004, are available in fiscal year 2005. More detailed information about the State's capital assets is presented in Note 9 to the financial statements.

**Long-term Debt:** The State, along with the State Building Authority (SBA), a blended component unit of the State, are empowered by law to authorize, issue, and sell debt obligations. General obligation bonds, issued by the State, are backed by the full faith and credit of the State. The State also issues revenue dedicated bonded debt, whose payment for principal and interest comes solely out of funds that receive legally restricted revenues. The State is not legally obligated for the debt issued by SBA. SBA's bonds generate revenue to finance the construction of facilities used by the State and universities. Revenues derived from leases on the facilities fund the debt service requirements. More detailed information regarding the State's long-term obligations is presented in Notes 12 and 14 to the financial statements.

Outstanding Bonded Debt as of September 30  
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
General obligation bonds (backed by the State)	\$1,527.5	\$1,413.4	\$ -	\$ -	\$1,527.5	\$1,413.4
Revenue bonds and notes (backed by specific tax and fee revenues)	3,987.7	3,919.6	-	-	3,987.7	3,919.6
<b>Total</b>	<b>\$5,515.2</b>	<b>\$5,333.0</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$5,515.2</b>	<b>\$5,333.0</b>

During fiscal year 2003-2004 the State issued general obligation debt totaling \$302.8 million, including \$64.5 million for conservation and recreation projects (the Clean Michigan Initiative) and \$238.3 million to provide funds for loans to school districts.

**Bond Ratings**

The State's general obligations are rated AA+ by Standard & Poors and Aa1 by Moody's.

**Limitations on Debt**

The State Constitution authorizes general obligation long-term borrowing, with approval of the Legislature and a majority of the voters, and general obligation short-term notes, of which the principal may not exceed 15% of undedicated revenues received in the preceding year. In fiscal year 2003-2004 the State issued and repaid short-term borrowing totaling \$1.3 billion.

**ECONOMIC CONDITION AND OUTLOOK**

Michigan's economy relies heavily on the performance of the manufacturing sector in general and the auto industry specifically. Given extremely weak manufacturing employment performance, declining vehicle production, continued declines in Big 3 market share along with continued supply rationalization among vehicle suppliers, Michigan's employment performance has been below the national average. Substantial productivity gains in the manufacturing sector and vehicle industry have also contributed to Michigan's sub-par employment performance.

Through October, state employment is down compared to a year ago. From Michigan's employment peak in June 2000 compared to October 2004, Michigan has lost more than 300,000 jobs. By this time after the 1990-1991 recession, Michigan employment had risen nearly 200,000 jobs above its pre-recession peak. Michigan manufacturing employment has declined even more sharply. Since June 2000, Michigan manufacturing employment has fallen by slightly more than 200,000 jobs.

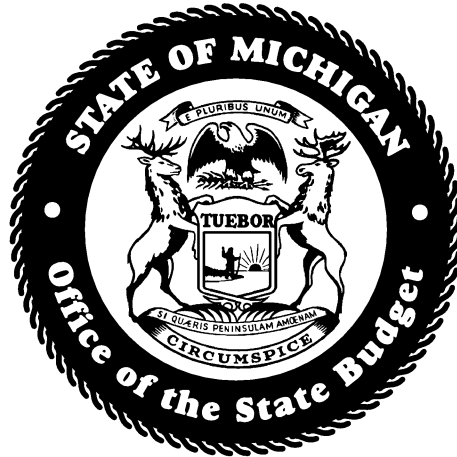
However, with continued U.S. economic growth, smaller declines in manufacturing sector employment and improvements in the private non-manufacturing sector, Michigan employment is expected to grow each quarter, with employment gains averaging a modest 8,000 jobs per quarter. For 2004, employment is estimated to have declined by 49,000 jobs (1.1 percent) – the fourth straight annual Michigan employment decline. With slight growth in 2005, employment is forecast to average 0.3 percent higher than 2004 employment. After falling from 7.3 percent to 6.7 percent in 2004, Michigan's unemployment rate is forecast to rise to 6.9 percent in 2005.

Michigan personal income is projected to rise 4.5 percent in 2005, after increasing an estimated 2.7 percent in 2004. In 2005, wages and salaries income is forecast to grow 3.7 percent after rising slightly (0.7 percent) in 2004. As measured by the Detroit CPI, consumer prices are projected to increase 2.4 percent.

**CONTACTING THE STATE'S OFFICE OF FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Additional copies of this report and other financial information can be obtained by visiting the Office of Financial Management website at [www.michigan.gov/ofm](http://www.michigan.gov/ofm). You can also contact the office by phone at (517) 373-3029.

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the component unit. To obtain their phone numbers, you may contact the Office of Financial Management at (517) 373-3029.



## BASIC FINANCIAL STATEMENTS

# Michigan

## STATEMENT OF NET ASSETS

SEPTEMBER 30, 2004

(In Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 13,323	\$ 5,245	\$ 18,568	\$ 670,035
Equity in common cash (Note 5)	1,554,396	71,357	1,625,754	75,128
Taxes, interest, and penalties receivable (Note 6)	4,444,613	-	4,444,613	-
Internal balances	27,937	(27,937)	-	-
Amounts due from component units	3,963	730	4,693	239
Amounts due from primary government	-	-	-	178,713
Amounts due from federal government	898,175	1,682	899,857	28,919
Amounts due from local units	204,408	39,288	243,696	907,370
Inventories	42,247	7,251	49,498	15,660
Investments (Note 8)	439,512	1,029,597	1,469,108	1,027,279
Securities lending collateral (Note 8)	21,775	301,950	323,724	-
Other current assets	558,314	249,946	808,260	392,407
Total Current Assets	8,208,662	1,679,109	9,887,771	3,295,749
Restricted Assets:				
Cash and cash equivalents	-	-	-	17,281
Investments	-	-	-	380,354
Mortgages and loans receivable	-	-	-	45,365
Taxes, interest, and penalties receivable (Note 6)	271,994	-	271,994	-
Amounts due from federal government	2,201	-	2,201	-
Amounts due from local units	666,998	-	666,998	2,324,057
Mortgages and loans receivable	-	-	-	3,023,054
Investments (Note 8)	380,908	496,824	877,732	3,107,403
Capital Assets (Note 9):				
Land and other non-depreciable assets	3,153,972	-	3,153,972	95,757
Buildings, equipment, and other depreciable assets	4,593,772	4,834	4,598,606	4,071,388
Less accumulated depreciation	(2,067,291)	(4,268)	(2,071,559)	(1,505,094)
Infrastructure	11,699,350	-	11,699,350	102,621
Construction in progress	1,315,044	-	1,315,044	174,559
Total capital assets	18,694,846	566	18,695,412	2,939,231
Interest in joint ventures (Note 7)	31,473	-	31,473	-
Other noncurrent assets	39,542	13,300	52,842	301,236
Total Assets	\$ 28,296,625	\$ 2,189,799	\$ 30,486,424	\$ 15,433,731
<b>LIABILITIES</b>				
Current Liabilities:				
Warrants outstanding	\$ 179,255	\$ 8,434	\$ 187,690	\$ 1,116
Obligations under security lending	21,775	301,950	323,724	-
Accounts payable and other liabilities	2,335,801	231,645	2,567,445	267,732
Income tax refunds payable (Note 15)	717,518	-	717,518	-
Amounts due to component units	2,013	-	2,013	-
Amounts due to primary government	-	-	-	5,141
Bonds and notes payable (Notes 12 and 13)	648,935	-	648,935	1,083,309
Interest payable	111,977	-	111,977	108,789
Deferred revenue	110,746	813	111,559	71,212
Current portion of other long-term obligations (Note 14)	231,519	368	231,887	101,114
Total Current Liabilities	4,359,539	543,209	4,902,748	1,638,413
Prize awards payable (Note 14)	-	430,228	430,228	-
Deferred revenue	21,533	-	21,533	3,284
Bonds and notes payable (Notes 12 and 13)	6,042,970	-	6,042,970	7,001,277
Noncurrent portion of other long-term obligations (Note 14)	1,877,030	45,346	1,922,376	1,520,085
Total Liabilities	\$ 12,301,071	\$ 1,018,784	\$ 13,319,855	\$ 10,163,060

The accompanying notes are an integral part of the financial statements.

# Michigan

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 14,962,902	\$ 566	\$ 14,963,468	\$ 1,903,120
Restricted For:				
Education	-	-	-	198,565
Construction and debt service	48,707	-	48,707	299,060
Public safety and corrections	17,532	-	17,532	-
Conservation, environment, recreation, and agriculture	323,327	-	323,327	-
Health and family services	20,264	-	20,264	-
Transportation	770,056	-	770,056	-
Unemployment compensation	-	1,087,442	1,087,442	-
Other purposes	245,632	77,098	322,729	1,519,310
Funds Held as Permanent Investments:				
Expendable	93,658	-	93,658	26,942
Nonexpendable	474,158	-	474,158	193,723
Unrestricted	(960,684)	5,910	(954,774)	1,129,952
Total Net Assets	<u>\$ 15,995,554</u>	<u>\$ 1,171,016</u>	<u>\$ 17,166,569</u>	<u>\$ 5,270,672</u>

# Michigan

## STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

		PROGRAM REVENUES		
		CHARGES FOR	OPERATING	CAPITAL
	EXPENSES	SERVICES	GRANTS AND	GRANTS AND
Functions/Programs			CONTRIBUTIONS	CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
General government	\$ 1,748,598	\$ 826,573	\$ 202,168	\$ 27,526
Education	14,418,940	5,277	1,325,584	-
Family independence services	3,985,861	58,170	2,777,417	-
Public safety and corrections	2,256,393	154,440	130,466	-
Conservation, environment, recreation, and agriculture	674,387	254,861	121,972	330
Labor, commerce, and regulatory	920,056	247,857	514,973	-
Health services	9,605,216	57,071	6,312,530	-
Transportation	3,104,841	197,125	398,362	590,590
Tax expenditures (Note 15)	702,700	-	-	-
Intergovernmental-revenue sharing	1,305,146	-	-	-
Interest on long-term debt	246,992	-	-	-
Total governmental activities	38,969,130	1,801,373	11,783,472	618,445
Business-type Activities:				
Liquor Purchase Revolving Fund	544,683	675,747	-	-
State Lottery Fund	1,391,385	2,002,688	18,694	-
Attorney Discipline System	4,056	4,593	-	-
Michigan Unemployment Compensation Funds	2,349,400	1,817,576	58,068	-
Total business-type activities	4,289,524	4,500,604	76,762	-
Total primary government	\$ 43,258,653	\$ 6,301,978	\$ 11,860,234	\$ 618,445
Component Units:				
Authorities:				
Michigan Education Trust	\$ 67,688	\$ 237	\$ 37,167	\$ -
Michigan State Housing Development Authority	481,956	169,942	348,447	-
Michigan Municipal Bond Authority	143,218	103,059	151,203	-
Non-Major	433,252	115,133	217,708	-
State Universities:				
Central Michigan University	293,418	183,985	30,827	2,623
Western Michigan University	436,423	259,272	70,215	1,397
Non-Major	1,262,415	723,963	161,835	65,557
Total component units	\$ 3,118,369	\$ 1,555,592	\$ 1,017,402	\$ 69,577

### General Revenues:

#### Taxes:

##### General:

Sales and use  
Personal income  
Single business  
Other

##### Restricted For Educational Purposes:

Sales and use  
Personal income  
Education, property, and real estate transfers  
Other

##### Restricted For Transportation Purposes:

Sales and use  
Gasoline and diesel fuel  
Motor vehicle weight  
Other

##### Unrestricted investment and interest earnings

##### Miscellaneous

##### Contributions to permanent fund principal

##### Payments from State of Michigan

##### Transfers

##### Total general and other revenue, payments, and transfers

##### Change in net assets

##### Net assets-beginning-restated

##### Net assets-ending

The accompanying notes are an integral part of the financial statements.

NET (EXPENSE) REVENUES AND CHANGES IN NET ASSETS			
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
\$ (692,332)	\$ -	\$ (692,332)	\$ -
(13,088,079)	-	(13,088,079)	-
(1,150,274)	-	(1,150,274)	-
(1,971,487)	-	(1,971,487)	-
(297,224)	-	(297,224)	-
(157,227)	-	(157,227)	-
(3,235,615)	-	(3,235,615)	-
(1,918,764)	-	(1,918,764)	-
(702,700)	-	(702,700)	-
(1,305,146)	-	(1,305,146)	-
(246,992)	-	(246,992)	-
(24,765,839)	-	(24,765,839)	-
-	131,064	131,064	-
-	629,997	629,997	-
-	537	537	-
-	(473,756)	(473,756)	-
-	287,843	287,843	-
(24,765,839)	287,843	(24,477,996)	-
-	-	-	(30,284)
-	-	-	36,433
-	-	-	111,045
-	-	-	(100,411)
-	-	-	(75,982)
-	-	-	(105,539)
-	-	-	(311,060)
-	-	-	(475,798)
2,565,865	-	2,565,865	-
4,693,512	-	4,693,512	-
1,773,325	-	1,773,325	-
1,640,244	11,989	1,652,233	-
5,143,414	-	5,143,414	-
1,896,860	-	1,896,860	-
2,142,706	-	2,142,706	-
775,297	-	775,297	-
64,960	-	64,960	-
1,070,488	-	1,070,488	-
933,822	-	933,822	-
7,721	-	7,721	-
9,728	1,225	10,953	62,131
677,848	-	677,848	57,962
30,759	-	30,759	-
-	-	-	667,806
901,580	(901,580)	-	-
24,328,129	(888,366)	23,439,763	787,898
(437,710)	(600,524)	(1,038,233)	312,100
16,433,263	1,771,539	18,204,803	4,958,572
\$ 15,995,554	\$ 1,171,016	\$ 17,166,569	\$ 5,270,672



## GOVERNMENTAL FUND FINANCIAL STATEMENTS



### Major Funds

#### GENERAL FUND

This fund is the State's operating fund. It accounts for the financial resources and transactions not accounted for in other funds.

#### COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND

This fund, commonly referred to as the "Budget Stabilization Fund" or "Rainy Day Fund," was created by P.A. 76 of 1977 to assist in stabilizing revenue and employment during periods of economic recession and high unemployment. In general, transfers are made into this fund from the General Fund during improving economic times and funds flow from this fund to the General Fund in times of declining economy. Additional information regarding the fund is provided in Note 3.

#### SCHOOL AID FUND

An amendment to the 1908 State Constitution created this fund in 1955. The 1963 State Constitution provided for the fund's continued existence. Its purpose is to aid in the support of the public schools and the intermediate school districts of the State. School aid payments to school districts are based on a statutory formula. Public Act 158 of 2003, effective October 1, 2003, created the school aid stabilization fund as a separate account within the School Aid Fund. Pursuant to this act, any remaining unreserved fund balance in the School Aid Fund at year-end is transferred to this account.

The fund receives State revenues restricted to local school programs, including: the constitutionally dedicated sixty percent of the collections of sales tax imposed at a rate of 4% and all of the collections of sales tax imposed at the additional rate of 2%; State Lottery Fund earnings; a percentage of the adjusted gross receipts from casino gaming; the real estate transfer tax; and portions of the personal income, cigarette, liquor, and industrial and commercial facilities taxes. A constitutional amendment approved by voters in 1994 made structural changes in the method of financing local school districts. The amendment authorized the levy of a statewide property tax, which is deposited in the School Aid Fund. Appropriated transfers are also made from the General Fund.

### Non-Major Funds

Non-major governmental funds are presented, by fund type, beginning on page 96.

**Michigan**

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
 SEPTEMBER 30, 2004  
 (In Thousands)

	GENERAL FUND	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
<b>ASSETS</b>					
Current Assets:					
Cash	\$ 7,541	\$ -	\$ -	\$ 5,691	\$ 13,232
Equity in common cash (Note 5)	-	-	-	1,279,959	1,279,959
Taxes, interest, and penalties receivable (Note 6)	2,498,042	-	1,820,188	126,383	4,444,613
Amounts due from other funds (Note 17)	1,551,776	81,258	9,883	961,147	2,604,063
Amounts due from component units	819	-	-	2,991	3,811
Amounts due from federal agencies	671,540	-	59,335	167,299	898,175
Amounts due from local units	61,530	-	80,564	62,315	204,408
Inventories	21,276	-	-	6,067	27,344
Investments (Note 8)	-	-	-	439,512	439,512
Securities lending collateral	-	-	-	21,775	21,775
Other current assets	298,132	-	466	238,123	536,722
Total Current Assets	5,110,656	81,258	1,970,435	3,311,264	10,473,613
Taxes, interest, and penalties receivable (Note 6)	226,440	-	44,143	1,411	271,994
Advances to other funds (Note 17)	6,768	-	-	21,689	28,457
Amounts due from federal agencies	2,201	-	-	-	2,201
Amounts due from local units	619,604	-	1,125	46,270	666,998
Investments (Note 8)	-	-	-	380,908	380,908
Other noncurrent assets	2,337	-	-	6,985	9,323
Total Assets	\$ 5,968,006	\$ 81,258	\$ 2,015,703	\$ 3,768,527	\$ 11,833,494
<b>LIABILITIES AND FUND BALANCES</b>					
Current Liabilities:					
Warrants outstanding	\$ 113,279	\$ -	\$ 1,228	\$ 61,159	\$ 175,666
Obligations under security lending	-	-	-	21,775	21,775
Accounts payable and other liabilities (Note 22)	1,388,343	-	147,952	715,012	2,251,307
Income tax refunds payable (Note 15)	717,518	-	-	-	717,518
Amounts due to other funds (Note 17)	926,041	-	1,466,496	214,735	2,607,272
Amounts due to component units	1,893	-	-	120	2,013
Bonds and notes payable	-	-	-	449,170	449,170
Interest payable	-	-	-	367	367
Deferred revenue	1,331,132	-	281,814	259,509	1,872,455
Total Current Liabilities	4,478,206	-	1,897,490	1,721,847	8,097,543
Long-Term Liabilities:					
Advances from other funds (Note 17)	-	-	-	21,689	21,689
Deferred revenue	319,981	-	44,143	19,294	383,418
Total Liabilities	4,798,187	-	1,941,634	1,762,830	8,502,650
Fund Balances:					
Reserved fund balance (Note 21)	1,169,819	-	74,070	1,591,479	2,835,368
Unreserved fund balance reported in:					
Special revenue funds	-	81,258	-	456,659	537,917
Debt service funds	-	-	-	365,841	365,841
Capital projects funds	-	-	-	(451,060)	(451,060)
Permanent funds	-	-	-	42,778	42,778
Total Fund Balances	1,169,819	81,258	74,070	2,005,697	3,330,844
Total Liabilities and Fund Balances	\$ 5,968,006	\$ 81,258	\$ 2,015,703	\$ 3,768,527	\$ 11,833,494

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS**

SEPTEMBER 30, 2004

(In Thousands)

Total fund balances for governmental funds \$ 3,330,844

Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds. (Note 9)

Land and other non-depreciable assets	3,153,972	
Buildings, equipment, and other depreciable assets	4,151,380	
Infrastructure	11,699,350	
Construction in progress	1,315,044	
Interest in joint ventures	31,473	
Accumulated depreciation	<u>(1,727,154)</u>	18,624,065

Certain tax revenues are earned but not available and therefore are not  
reported in the funds. 1,831,784

Other long-term assets are not available to pay for current period  
expenditures and therefore are deferred in the funds. 298,604

Internal service funds are used by management to charge the costs of  
certain activities, such as insurance and telecommunications, to  
individual funds. The assets and liabilities of the internal service funds  
are included in governmental activities in the Statement of Net Assets. 121,620

Certain pension trust funds have been funded in excess of the annual  
required contributions, creating a year-end asset. This asset is not a  
current available resource and is not reported in the funds. (Note 10) 1,861

Deferred issue costs are reported as current expenditures in the funds.  
However, deferred issue costs are amortized over the life of the bonds  
and are included in the governmental activities in the Statement of Net  
Assets. 28,301

Long-term liabilities are not due and payable in the current period and  
therefore are not reported in the funds. (Note 14)

Capital lease obligations	(403,433)	
Compensated absences	(468,034)	
Workers' compensation	(106,492)	
Litigation	(588,388)	
Net pension obligations	(316,133)	
Other long-term liabilities	<u>(4,699)</u>	(1,887,180)

Long-term bonded debt is not due and payable in the current period and  
therefore is not reported in the funds. Unamortized premiums, loss on  
refundings, and interest payable are not reported in the funds. However,  
these amounts are included in the Statement of Net Assets. This is the  
net effect of these balances on the statement. (Note 12)

Bonds and notes payable	(6,115,206)	
Unamortized premiums	(225,279)	
Less deferred loss amount on refundings	97,750	
Accrued interest payable	<u>(111,610)</u>	<u>(6,354,345)</u>

Net assets of governmental activities \$ 15,995,554

The accompanying notes are an integral part of the financial statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

	GENERAL	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
<b>REVENUES</b>					
Taxes	\$ 10,689,854	\$ -	\$ 9,970,459	\$ 2,139,616	\$ 22,799,928
From federal agencies	9,258,903	-	1,256,727	1,064,589	11,580,220
From local agencies	109,553	-	-	130,262	239,815
From services	147,683	-	-	457	148,140
From licenses and permits	378,983	-	-	176,875	555,858
Special Medicaid reimbursements	704,551	-	-	-	704,551
Miscellaneous	545,483	-	11,122	648,762	1,205,367
Total Revenues	21,835,010	-	11,238,308	4,160,560	37,233,878
<b>EXPENDITURES</b>					
Current:					
General government	1,012,314	-	-	105,345	1,117,659
Education	1,905,826	-	12,298,895	240,463	14,445,184
Family independence services	3,932,471	-	-	2,699	3,935,170
Public safety and corrections	2,118,888	-	-	2,695	2,121,584
Conservation, environment, recreation, and agriculture	329,962	-	-	256,134	586,096
Labor, commerce, and regulatory	713,456	-	-	189,448	902,903
Health services	9,577,909	-	-	98,360	9,676,268
Transportation	-	-	-	2,212,371	2,212,371
Tax expenditures (Note 15)	702,700	-	-	-	702,700
Capital outlay	42,053	-	-	1,058,052	1,100,106
Intergovernmental-revenue sharing	1,305,146	-	-	-	1,305,146
Debt service:					
Bond principal retirement	-	-	-	729,557	729,557
Bond interest and fiscal charges	-	-	-	241,194	241,194
Capital lease payments	50,123	-	-	717	50,840
Total Expenditures	21,690,848	-	12,298,895	5,137,036	39,126,778
Excess of Revenues over (under) Expenditures	144,162	-	(1,060,587)	(976,475)	(1,892,901)
<b>OTHER FINANCING SOURCES (USES)</b>					
Bonds and notes issued	-	-	-	520,676	520,676
Premium on bond issuance	-	-	-	55,940	55,940
Refunding bonds issued	-	-	-	660,249	660,249
Payment to refunded bond escrow agent	-	-	-	(247,256)	(247,256)
Capital lease acquisitions	19,661	-	-	-	19,661
Proceeds from sale of capital assets	4,609	-	-	12,627	17,236
Transfers from other funds (Note 19)	512,905	81,258	1,022,683	1,678,094	3,294,939
Transfers to other funds (Note 19)	(822,275)	-	(3,167)	(1,566,652)	(2,392,095)
Total Other Financing Sources (Uses)	(285,101)	81,258	1,019,516	1,113,677	1,929,350
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(140,939)	81,258	(41,071)	137,202	36,449
Fund Balances - Beginning of fiscal year restated	1,310,758	-	115,141	1,868,496	3,294,395
Fund Balances - End of fiscal year	\$ 1,169,819	\$ 81,258	\$ 74,070	\$ 2,005,697	\$ 3,330,844

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

Net change in fund balance - total governmental funds \$ 36,449

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.  
(Note 9)

Land and other non-depreciable assets	26,814	
Buildings, equipment, and other depreciable assets	108,064	
Infrastructure additions	135,660	
Construction in progress	(72,949)	
Gain on sale of capital assets	8,191	
Accumulated depreciation	<u>(133,407)</u>	72,372

Certain revenues that were reported as resources in the funds but were earned in prior fiscal years are not reported in the Statement of Activities. 6,944

Increase in equity interest in joint ventures (Note 7) 75

Tax revenues that were reported as resources in the funds but were earned in prior fiscal years are not reported in the Statement of Activities. (79,876)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. (3,290)

Bond proceeds provide current financial resources to governmental funds by issuing debt which increases long-term bonded debt in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term bonded debt in the Statement of Net Assets. This is the amount proceeds exceed repayments. (Note 12)

Bond proceeds and premiums received	(1,236,865)	
Repayment of bond principal	729,557	
Payment to refunded bond escrow agent	247,256	
Accrued interest and amortization	(4,199)	
Deferred issue costs	7,330	
Other	<u>(9,971)</u>	(266,893)

Certain expenditures are reported in the funds. However, they either increase or decrease long-term liabilities reported on the Statement of Net Assets and have been eliminated from the Statement of Activities.  
(Note 14)

Net pension obligation	(161,708)	
Capital lease payments	21,561	
Compensated absences payments	(87,299)	
Litigation settlements and payments	27,590	
Workers' compensation	(1,012)	
Other	<u>(2,623)</u>	(203,492)

Change in net assets of governmental activities \$ (437,710)

The accompanying notes are an integral part of the financial statements.



## PROPRIETARY FUND FINANCIAL STATEMENTS



### Major Funds

#### STATE LOTTERY FUND

Public Act 239 of 1972 established the State Lottery Fund and created a Bureau of State Lottery under authority of Article 5, Section 4, of the State Constitution. This authority expired on August 1, 1974, at which time the Bureau became an organizational entity in the Department of Management and Budget. The Bureau was transferred to the Department of Treasury during fiscal year 1990-91. Net income of the fund related to lottery operations is transferred to the School Aid Fund and the fund's net income related to bingo and charity games regulation is transferred to the General Fund. The remaining net assets balance represents the unrealized cumulative gain or loss on investments, as required by GASB Statement No. 31.

Revenues and related expenses are recognized in the period during which the related drawings are held. Deferred prize awards are recorded as expenses and liabilities at their discounted present value. The State Treasurer invests funds equivalent to the discounted value of the installment payments and the Lottery Fund is credited with the interest earnings.

#### MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS

The columns for the Michigan Unemployment Compensation Funds reflect the activity of two funds administered by the Bureau of Worker's and Unemployment Compensation within the Department of Labor and Economic Growth: the Michigan Unemployment Compensation Fund and the Michigan Employment Security Act Contingent Fund. The Michigan Unemployment Compensation Fund receives contributions from employers and provides for the payment of benefits to eligible unemployed workers. The fund also makes payments under certain federally funded programs. Administrative costs of the fund are accounted for in the Michigan Employment Security Act - Administration Fund, a special revenue fund.

The Michigan Employment Security Act Contingent Fund was created by P.A. 535 of 1982 to receive a special temporary unemployment tax surcharge, known as the solvency tax. The fund also receives interest and penalty charges on late contributions. Public Act 224 of 1989 restricts use of solvency taxes for payment of interest on the Michigan Unemployment Compensation borrowings from the federal government.

A portion of the asset "Amounts due from other funds" and the liability "Amounts due to other funds" represent receivables and payables between the Michigan Unemployment Compensation Fund and the Michigan Employment Security Act Contingent Fund.

### Non-Major Funds

Individual fund statements for the Enterprise Funds, whose combined totals are presented on this statement, begin on page 160.

Individual fund statements for the Internal Service Funds, whose combined totals are presented on this statement, begin on page 164.

**Michigan**

**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
 SEPTEMBER 30, 2004  
 (In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				
	MAJOR				GOVERNMENTAL
	STATE	MICHIGAN			ACTIVITIES --
	LOTTERY	UNEMPLOYMENT	NON-MAJOR	TOTALS	INTERNAL
	FUND	COMPENSATION			SERVICE
		FUNDS			FUNDS
ASSETS					
Current Assets:					
Cash	\$ 2	\$ 4,049	\$ 1,194	\$ 5,245	\$ 91
Equity in common cash (Note 5)	6,736	4,557	60,064	71,357	274,437
Amounts due from other funds (Note 17)	-	4,959	-	4,959	31,180
Amounts due from component units	-	730	-	730	152
Amounts due from federal agencies	-	1,682	-	1,682	-
Amounts due from local units	-	39,288	-	39,288	-
Inventories	3,750	-	3,501	7,251	14,904
Investments (Note 8)	103,862	924,572	1,163	1,029,597	-
Securities lending collateral	301,950	-	-	301,950	-
Other current assets	55,346	187,173	7,427	249,946	20,293
Total Current Assets	471,645	1,167,010	73,349	1,712,005	341,057
Investments (Note 8)	496,824	-	-	496,824	-
Capital Assets (Note 9):					
Buildings and equipment	4,112	-	722	4,834	442,392
Allowance for depreciation	(3,599)	-	(669)	(4,268)	(340,138)
Total capital assets	513	-	53	566	102,254
Other noncurrent assets	-	13,300	-	13,300	-
Total Assets	\$ 968,982	\$ 1,180,310	\$ 73,403	\$ 2,222,695	\$ 443,311
LIABILITIES					
Current Liabilities:					
Warrants outstanding	\$ 1,757	\$ -	\$ 6,677	\$ 8,434	\$ 3,589
Accounts payable and other liabilities (Note 22)	145,984	26,893	58,694	231,571	69,809
Amounts due to other funds (Note 17)	9,978	22,915	77	32,970	13,419
Deferred revenue	-	118	695	813	6,737
Obligations under security lending (Note 8)	301,950	-	-	301,950	-
Current portion of other long-term obligations (Note 14)	172	-	196	368	96,461
Total Current Liabilities	459,841	49,926	66,339	576,105	190,016
Long-Term Liabilities:					
Advances from other funds (Note 17)	-	-	-	-	6,768
Prize awards payable	430,228	-	-	430,228	-
Noncurrent portion of other long-term obligations (Note 14)	1,816	42,942	588	45,346	124,907
Total Liabilities	891,885	92,868	66,927	1,051,679	321,691
NET ASSETS					
Invested in capital assets, net of related debt	\$ 513	\$ -	\$ 53	\$ 566	\$ 82,667
Restricted For:					
Unemployment compensation	-	1,087,442	-	1,087,442	-
Other purposes	77,098	-	-	77,098	3,361
Unrestricted	(513)	-	6,423	5,910	35,591
Total Net Assets	\$ 77,098	\$ 1,087,442	\$ 6,476	\$ 1,171,016	\$ 121,620

The accompanying notes are an integral part of the financial statements.

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

## PROPRIETARY FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				
	MAJOR				GOVERNMENTAL
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR	TOTALS	ACTIVITIES -- INTERNAL SERVICE FUNDS
<b>OPERATING REVENUES</b>					
Operating revenues	\$ 2,002,688	\$ 1,817,576	\$ 680,340	\$ 4,500,604	\$ 1,569,067
Total Operating Revenues	2,002,688	1,817,576	680,340	4,500,604	1,569,067
<b>OPERATING EXPENSES</b>					
Salaries, wages, and other administrative	240,615	-	54,181	294,796	521,761
Interest expense	1	-	-	1	18
Depreciation	149	-	24	173	48,966
Purchases for resale	-	-	493,271	493,271	43,058
Purchases for prison industries	-	-	-	-	14,204
Lottery prize awards	1,107,050	-	-	1,107,050	-
Premiums and claims	-	-	1	1	894,837
Unemployment benefits	-	1,980,227	-	1,980,227	-
Other operating expenses	-	369,173	1,262	370,435	51,099
Total Operating Expenses	1,347,815	2,349,400	548,739	4,245,953	1,573,943
Operating Income (Loss)	654,874	(531,824)	131,601	254,651	(4,876)
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Specific tax on spirits	-	-	11,989	11,989	-
Interest revenue	960	-	1,177	2,137	3,025
Investment revenue (expense) - net	17,734	58,068	48	75,850	-
Other nonoperating revenues	-	-	-	-	630
Amortization of prize award obligation discount	(39,223)	-	-	(39,223)	-
Interest expense	(4,347)	-	-	(4,347)	(1,214)
Other nonoperating expense	-	-	-	-	(791)
Total Nonoperating Revenues (Expenses)	(24,876)	58,068	13,214	46,406	1,651
Income (Loss) Before Capital Contributions and Transfers	629,997	(473,756)	144,815	301,057	(3,226)
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>					
Capital contributions from other funds	-	-	-	-	1,125
Transfers To:					
School Aid Fund	(644,883)	-	-	(644,883)	-
Other funds	(13,193)	(99,325)	(144,180)	(256,698)	(1,190)
Total transfers to other funds	(658,076)	(99,325)	(144,180)	(901,580)	(1,190)
Total Capital Contributions and Transfers In (Out)	(658,076)	(99,325)	(144,180)	(901,580)	(64)
Change in net assets	(28,079)	(573,080)	636	(600,524)	(3,290)
Total net assets - Beginning of fiscal year	105,176	1,660,522	5,841	1,771,539	124,910
Total net assets - End of fiscal year	\$ 77,098	\$ 1,087,442	\$ 6,476	\$ 1,171,016	\$ 121,620

The accompanying notes are an integral part of the financial statements.

# Michigan

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS					
	MAJOR			TOTALS	GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from federal and local agencies	\$ -	\$ 381,108	\$ -	\$ 381,108	\$ -
Receipts from customers	2,008,218	1,395,780	675,747	4,079,745	1,552,322
Membership dues	-	-	4,791	4,791	-
Payments to employees	(10,978)	-	(13,347)	(24,324)	(158,873)
Payments to suppliers	(46,409)	-	(524,124)	(570,533)	(678,130)
Payments to prize winners	(1,205,945)	-	-	(1,205,945)	-
Payments for commissions to retailers	(182,305)	-	-	(182,305)	-
Claims paid	-	(2,360,586)	-	(2,360,586)	(681,027)
Other receipts	-	2,100	167	2,267	311
Other payments	-	-	(5,127)	(5,127)	(8,784)
Net cash provided (used)					
by operating activities	\$ 562,581	\$ (581,598)	\$ 138,107	\$ 119,089	\$ 25,819
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Loans or loan repayments from other funds	\$ -	\$ -	\$ -	\$ -	\$ 31,987
Loans or loan repayments to other funds	-	-	-	-	(31,695)
Specific tax on spirits	-	-	11,989	11,989	-
Transfers to other funds	(673,241)	(105,977)	(144,180)	(923,398)	(1,190)
Other receipts	-	-	-	-	9
Net cash provided (used)					
by noncapital financing activities	\$ (673,241)	\$ (105,977)	\$ (132,191)	\$ (911,409)	\$ (888)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition and construction of capital assets	\$ (82)	\$ -	\$ -	\$ (82)	\$ (19,514)
Interest paid	-	-	-	-	(292)
Capital lease payments	-	-	-	-	-
(including imputed interest expense)	-	-	-	-	(17,037)
Proceeds from sale of capital assets	-	-	-	-	180
Net cash provided (used) by capital and related financing activities	\$ (82)	\$ -	\$ -	\$ (82)	\$ (36,664)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sale and maturities of investment securities	\$ 108,890	\$ 620,901	\$ (26)	\$ 729,765	\$ -
Interest and dividends on investments	960	58,068	1,177	60,205	3,025
Income from securities lending activities	4,723	-	-	4,723	-
Expenses from securities lending activities	(4,347)	-	-	(4,347)	-
Net cash provided (used)					
by investing activities	\$ 110,226	\$ 678,969	\$ 1,151	\$ 790,346	\$ 3,025
Net cash provided (used) - all activities	\$ (516)	\$ (8,606)	\$ 7,067	\$ (2,056)	\$ (8,708)
Cash and cash equivalents at beginning of year	5,498	17,212	47,514	70,223	279,647
<b>Cash and cash equivalents at end of year</b>	<b>\$ 4,981</b>	<b>\$ 8,606</b>	<b>\$ 54,580</b>	<b>\$ 68,168</b>	<b>\$ 270,939</b>

The accompanying notes are an integral part of the financial statements.

# Michigan

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				
	MAJOR				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR	TOTALS	
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>					
Per Statement of Net Assets Classifications:					
Cash	\$ 2	\$ 4,049	\$ 1,194	\$ 5,244	\$ 91
Equity in common cash	6,736	4,557	60,064	71,357	274,437
Warrants outstanding	(1,757)	-	(6,677)	(8,434)	(3,589)
Cash and cash equivalents at end of year	<u>\$ 4,981</u>	<u>\$ 8,606</u>	<u>\$ 54,580</u>	<u>\$ 68,168</u>	<u>\$ 270,939</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ 654,874	\$ (531,824)	\$ 131,601	\$ 254,651	\$ (4,876)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:					
Depreciation expense	149	-	24	173	48,966
Amortization of prize award obligation discount	(39,223)	-	-	(39,223)	-
Other reconciling items	131	-	-	131	-
Net Changes in Assets and Liabilities:					
Inventories	(1,619)	-	161	(1,458)	2,346
Other assets (net)	12,940	(38,849)	(3,506)	(29,415)	(12,603)
Accounts payable and other liabilities	2,378	(10,911)	9,462	929	(8,014)
Prize awards payable	(67,050)	-	-	(67,050)	-
Deferred revenue	-	(14)	365	351	-
Net cash provided (used) by operating activities	<u>\$ 562,581</u>	<u>\$ (581,598)</u>	<u>\$ 138,107</u>	<u>\$ 119,089</u>	<u>\$ 25,819</u>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>					
Capital contributions	\$ -	\$ -	\$ -	\$ -	\$ 1,125
Cost of capital assets acquisitions financed by capital leases	-	-	-	-	10,576
Capital lease liabilities entered into during the year	-	-	-	-	(10,576)
Increase (decrease) in fair value of investments	(28,079)	-	-	(28,079)	-
Transfers to other funds (accrual)	(9,883)	(19,750)	-	(29,633)	-
Gain (loss) on disposal of capital assets	-	-	-	-	(339)
Total noncash investing, capital, and financing activities	<u>\$ (37,962)</u>	<u>\$ (19,750)</u>	<u>\$ -</u>	<u>\$ (57,712)</u>	<u>\$ 786</u>



## FIDUCIARY FUND FINANCIAL STATEMENTS



Individual fund financial statements begin on the following pages:  
Pension (and Other Employee Benefit) Trust Funds, page 172  
Private Purpose Trust Funds, page 178  
Agency Funds, page 181

**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
 SEPTEMBER 30, 2004  
 (In Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
<b>ASSETS</b>			
Cash	\$ 592	\$ 960	\$ 79,707
Equity in common cash (Note 5)	208,426	69,386	4,095
Receivables:			
From participants	136,342	-	-
From employers	546,220	-	-
Interest and dividends	179	143	-
Due from other funds (Note 17)	14,902	-	-
Sale of investments	184	1,160	-
Investments at Fair Value (Note 8):			
Short term investments	1,549,154	-	15,070
Bonds, notes, mortgages, and preferred stock	8,177,244	11,734	44,606
Common stock	22,947,573	86	-
Real estate	3,259,600	-	-
Alternative investments	6,169,744	-	-
International investments	4,969,425	-	-
Mutual funds	1,677,805	623,053	-
Pooled investment funds	1,756,243	-	-
Money market funds	63,081	-	-
Guaranteed funding agreements	-	120,804	-
Securities lending collateral (Note 8)	2,808,598	1	-
Other current assets	-	6,973	6,029
Other noncurrent assets	-	-	372,614
Total assets	<u>\$ 54,285,311</u>	<u>\$ 834,300</u>	<u>\$ 522,122</u>
<b>LIABILITIES</b>			
Warrants outstanding	\$ 10,098	\$ 1,891	\$ 154
Accounts payable and other liabilities	70,735	7,240	100,448
Amounts due to other funds (Note 17)	26	-	1,298
Obligations under security lending	2,808,598	1	-
Other long-term liabilities	-	-	420,222
Total liabilities	<u>\$ 2,889,457</u>	<u>\$ 9,133</u>	<u>\$ 522,122</u>
<b>NET ASSETS</b>			
Net assets held in trust for pension, postemployment health-care, other employee benefits, and other purposes	<u>\$ 51,395,854</u>	<u>\$ 825,168</u>	
Reconciliation of Net Assets Held in Trust:			
Pension benefits (Note 10)	\$ 47,687,660	\$ -	
Postemployment health-care benefits	527,391	-	
Other employee benefits (Note 16)	3,180,803	-	
Other purposes	-	825,168	
Total net assets held in trust for benefits and other purposes	<u>\$ 51,395,854</u>	<u>\$ 825,168</u>	

The accompanying notes are an integral part of the financial statements.

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2004  
(In Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS
<b>ADDITIONS</b>		
Contributions:		
From participants	\$ 732,441	\$ 260,920
From employers	1,887,056	-
From clients	-	37,860
From gifts, bequests, and endowments	-	983
From other plans	5,055	-
Investment Income:		
Net appreciation (depreciation) in fair value of investments	4,701,940	31,039
Interest, dividends, and other	1,093,914	25,145
Securities lending income	30,206	18
Less Investment Expense:		
Investment activity expense	79,120	2,714
Securities lending expense	26,887	17
Net investment income (loss)	5,720,053	53,472
Escheated property	-	22,622
Miscellaneous income	2,480	1,664
<b>Total Additions</b>	<b>8,347,086</b>	<b>377,520</b>
<b>DEDUCTIONS</b>		
Benefits paid to participants or beneficiaries	3,431,197	22,277
Medical, dental, and life insurance for retirants	1,003,803	-
Refunds and transfers to other systems	31,818	-
Amounts distributed to clients, claimants, or third parties	-	73,668
Administrative expense	82,263	6,785
Transfers to other funds	74	-
<b>Total Deductions</b>	<b>4,549,155</b>	<b>102,731</b>
<b>Net increase (decrease)</b>	<b>3,797,931</b>	<b>274,789</b>
<b>Net assets - Beginning of fiscal year</b>	<b>47,597,924</b>	<b>550,378</b>
<b>Net assets - End of fiscal year (Note 10)</b>	<b>\$ 51,395,854</b>	<b>\$ 825,168</b>
Reconciliation of Net Increase in Assets:		
Net increase (decrease) in assets held in trust for pension benefits	\$ 3,564,783	\$ -
Net increase (decrease) in assets held in trust for postemployment benefits	31,416	-
Net increase (decrease) in assets held in trust for other employee benefits	201,732	-
Net increase (decrease) in assets held in trust for other purposes	-	274,789
<b>Total net increase (decrease)</b>	<b>\$ 3,797,931</b>	<b>\$ 274,789</b>

The accompanying notes are an integral part of the financial statements.



## COMPONENT UNIT FINANCIAL STATEMENTS



### Major Funds

#### MICHIGAN EDUCATION TRUST

The Michigan Education Trust (MET) operates a prepaid tuition program. A purchaser enters into a contract with MET which provides that in return for a specified actuarially determined payment, MET will provide a Michigan child's undergraduate tuition at any Michigan public university or community college. The amount the purchaser is required to pay is based on several factors, among them are tuition costs, the child's age and grade in school, anticipated investment earnings, tuition rate increases, and the type of contract purchased.

Public Act 316 of 1986 created MET. MET is governed by a nine-member board that consists of the State Treasurer and eight other individuals appointed by the Governor with the advice and consent of the Senate. Although MET is administratively located within the Michigan Department of Treasury, the Act provides its assets are not to be considered assets of the State and are not to be loaned or otherwise transferred or used by the State for any purpose other than the purposes specified in the Act. The Act and contracts also specifically provide that the State is not liable if MET becomes actuarially unsound. In that event, the contracts provide for refunds to participants.

#### MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

Public Act 346 of 1966, as amended, created the Michigan State Housing Development Authority (MSHDA) to issue notes and bonds to finance housing for sale or rental to families with low or moderate incomes and to finance home improvements. MSHDA is also the administrator of various "Section 8" housing programs in Michigan for the U.S. Department of Housing and Urban Development. The Governor appoints MSHDA's board members.

#### MICHIGAN MUNICIPAL BOND AUTHORITY

Public Act 227 of 1985, as amended, created the Michigan Municipal Bond Authority (MMBA) to assist local units of government in reducing their financing costs for public improvements, deficit reduction, and various other municipal purposes. MMBA pools the borrowing needs of various units and issues limited obligation debt; the proceeds of which are used to purchase local unit obligations or to make loans to local units.

MMBA is governed by a board of trustees consisting of the State Treasurer, two appointees of the Governor, and five state residents appointed by the Governor, with the advice and consent of the Senate.

MMBA and the Department of Environmental Quality serve as co-administrators of a special State Revolving Fund, which is reported as part of MMBA. The State Revolving Fund assists governmental units in financing water quality projects. Federal government and State matching provides financing for this activity along with investment interest earnings and/or other available funds. MMBA's separately issued financial reports provide a separate accounting of this fund's activities.

#### CENTRAL MICHIGAN UNIVERSITY AND WESTERN MICHIGAN UNIVERSITY

Central Michigan University and Western Michigan University are the two major universities of the ten universities included in this report. They are legally separate entities whose governing boards are appointed by the Governor and for which the State is therefore, defined as legally accountable. Excluded from this report are three other universities (University of Michigan, Michigan State University and Wayne State University) whose board members are elected by the voters and, therefore, considered separate special purpose governments.

### Non-Major Funds

The non-major component unit - authorities are presented beginning on page 186.

The non-major component unit - State universities are presented beginning on page 192.

## STATEMENT OF NET ASSETS

## COMPONENT UNITS

SEPTEMBER 30, 2004

(In Thousands)

	AUTHORITIES			
	MICHIGAN EDUCATION TRUST	MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY	MICHIGAN MUNICIPAL BOND AUTHORITY	NON-MAJOR
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 189,538	\$ 162,199	\$ 75	\$ 78,631
Equity in common cash (Note 5)	-	-	229	74,899
Amounts due from component units	-	-	-	-
Amounts due from primary government	1,355	-	570	1,263
Amounts due from federal government	-	-	-	14,036
Amounts due from local units	-	-	907,126	-
Inventories	-	-	-	727
Investments (Note 8)	-	101,600	560,919	323,278
Other current assets	18,176	40,639	40,436	195,347
Total Current Assets	<u>209,069</u>	<u>304,438</u>	<u>1,509,353</u>	<u>688,181</u>
Restricted Assets:				
Cash and cash equivalents	-	-	-	6,407
Investments	-	-	-	10,539
Mortgages and loans receivable	-	-	-	-
Amounts due from local units	-	-	2,324,057	-
Mortgages and loans receivable	-	1,766,448	-	1,224,512
Investments (Note 8)	721,677	576,497	1,032,666	394,772
Capital Assets:				
Land and other non-depreciable assets	-	-	-	843
Buildings, equipment, and other depreciable assets	-	15,098	-	46,592
Less accumulated depreciation	-	(2,056)	-	(18,702)
Infrastructure	-	-	-	102,621
Construction in progress	-	-	-	-
Total capital assets	-	13,042	-	131,355
Other noncurrent assets	41,836	47,430	151,300	16,882
Total Assets	<u>\$ 972,583</u>	<u>\$ 2,707,854</u>	<u>\$ 5,017,377</u>	<u>\$ 2,472,648</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Warrants outstanding	\$ -	\$ -	\$ -	\$ 1,116
Accounts payable and other liabilities	5	33,182	6,132	28,004
Amounts due to primary government	-	-	525	1,945
Bonds and notes payable (Note 13)	-	148,780	862,056	40,626
Interest payable	-	8,588	74,935	8,246
Deferred revenue	-	-	10,942	2,838
Current portion of other long-term obligations	86,004	-	-	4,235
Total Current Liabilities	<u>86,008</u>	<u>190,551</u>	<u>954,589</u>	<u>87,009</u>
Deferred revenue	-	-	-	-
Bonds and notes payable (Note 13)	-	1,533,730	2,564,958	1,854,898
Noncurrent portion of other long-term obligations	881,662	430,839	65,088	66,140
Total Liabilities	<u>\$ 967,670</u>	<u>\$ 2,155,120</u>	<u>\$ 3,584,635</u>	<u>\$ 2,008,047</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ 126,200
Restricted For:				
Education	-	-	-	-
Construction and debt service	-	261,272	-	10,371
Other purposes	4,913	-	1,422,475	29,677
Funds Held as Permanent Investments:				
Expendable	-	-	-	-
Nonexpendable	-	-	-	-
Unrestricted	-	291,462	10,267	298,353
Total Net Assets	<u>\$ 4,913</u>	<u>\$ 552,734</u>	<u>\$ 1,432,742</u>	<u>\$ 464,601</u>

## STATE UNIVERSITIES

CENTRAL MICHIGAN UNIVERSITY	WESTERN MICHIGAN UNIVERSITY	NON-MAJOR	TOTALS
\$ 31,594	\$ 16,571	\$ 191,428	\$ 670,035
-	-	-	75,128
-	-	239	239
43,264	21,643	110,618	178,713
717	2,857	11,310	28,919
-	16	228	907,370
3,321	4,495	7,117	15,660
-	11,234	30,248	1,027,279
16,081	15,820	65,908	392,407
<u>94,977</u>	<u>72,636</u>	<u>417,096</u>	<u>3,295,749</u>
2,612	-	8,262	17,281
52,977	138,041	178,797	380,354
7,252	-	38,112	45,365
-	-	-	2,324,057
-	8,706	23,388	3,023,054
70,996	67,092	243,703	3,107,403
9,922	14,912	70,080	95,757
504,253	845,587	2,659,859	4,071,388
(209,060)	(286,161)	(989,116)	(1,505,094)
-	-	-	102,621
11,878	41,081	121,600	174,559
<u>316,993</u>	<u>615,419</u>	<u>1,862,423</u>	<u>2,939,231</u>
-	16,621	27,167	301,236
<u>\$ 545,807</u>	<u>\$ 918,514</u>	<u>\$ 2,798,948</u>	<u>\$ 15,433,731</u>
\$ -	\$ -	\$ -	\$ 1,116
42,886	34,067	123,456	267,732
646	105	1,920	5,141
6,610	6,520	18,718	1,083,309
981	11,724	4,316	108,789
9,368	9,887	38,178	71,212
-	524	10,352	101,114
<u>60,491</u>	<u>62,827</u>	<u>196,939</u>	<u>1,638,413</u>
-	-	3,284	3,284
125,030	257,425	665,236	7,001,277
15,014	23,166	38,176	1,520,085
<u>\$ 200,535</u>	<u>\$ 343,418</u>	<u>\$ 903,635</u>	<u>\$ 10,163,060</u>
\$ 187,253	\$ 314,666	\$ 1,275,001	\$ 1,903,120
42,928	10,184	145,453	198,565
5,977	8,478	12,963	299,060
-	43,547	18,699	1,519,310
-	-	26,942	26,942
-	47,960	145,763	193,723
109,114	150,262	270,493	1,129,952
<u>\$ 345,273</u>	<u>\$ 575,097</u>	<u>\$ 1,895,313</u>	<u>\$ 5,270,672</u>

# Michigan

## STATEMENT OF ACTIVITIES

### COMPONENT UNITS

FISCAL YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	NET (EXPENSE) REVENUE
Authorities:					
Michigan Education Trust	\$ 67,688	\$ 237	\$ 37,167	\$ -	\$ (30,284)
Michigan State Housing Development Authority	481,956	169,942	348,447	-	36,433
Michigan Municipal Bond Authority	143,218	103,059	151,203	-	111,045
Non-Major	433,252	115,133	217,708	-	(100,411)
State Universities:					
Central Michigan University	293,418	183,985	30,827	2,623	(75,982)
Western Michigan University	436,423	259,272	70,215	1,397	(105,539)
Non-Major	1,262,415	723,963	161,835	65,557	(311,060)
Total	<u>\$ 3,118,369</u>	<u>\$ 1,555,592</u>	<u>\$ 1,017,402</u>	<u>\$ 69,577</u>	<u>\$ (475,798)</u>

The accompanying notes are an integral part of the financial statements.

# Michigan

GENERAL REVENUES						
INTEREST AND INVESTMENT EARNINGS (LOSS)	PAYMENTS FROM STATE OF MICHIGAN	OTHER	SPECIAL ITEMS	CHANGE IN NET ASSETS	NET ASSETS BEGINNING OF YEAR RESTATED	NET ASSETS END OF YEAR
\$ -	\$ -	\$ -	\$ -	\$ (30,284)	\$ 35,196	\$ 4,913
15,567	-	-	-	52,000	500,734	552,734
-	-	-	-	111,045	1,321,697	1,432,742
7,486	47,987	5,850	-	(39,089)	503,690	464,601
12,719	90,013	215	-	26,965	318,308	345,273
6,224	135,590	35,361	-	71,636	503,460	575,097
20,135	394,216	16,536	-	119,827	1,775,487	1,895,313
<u>\$ 62,131</u>	<u>\$ 667,806</u>	<u>\$ 57,962</u>	<u>\$ -</u>	<u>\$ 312,100</u>	<u>\$ 4,958,572</u>	<u>\$ 5,270,672</u>

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## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the State conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). Following is a summary of the significant policies:

### **A. Reporting Entity**

Michigan was admitted to the Union as the twenty-sixth state in 1837. The State of Michigan is governed under the Constitution of 1963, as amended. The legislative power is vested in a 38-member senate and a 110-member house of representatives; executive power is vested in a governor; and the judicial power is vested exclusively in one court of justice.

For financial reporting purposes, the State of Michigan's reporting entity includes the "primary government" and its "component units." The primary government includes all funds, departments and agencies, bureaus, boards, commissions, and those authorities that are considered an integral part of the primary government. Component units are legally separate governmental organizations for which the State's elected officials are financially accountable. Component units can also be legally separate, tax-exempt entities that raise and hold economic resources for the direct benefit of a governmental unit.

Financial accountability is defined in GASB Statement No. 14, The Financial Reporting Entity. The State is financially accountable for those entities in which the State appoints a voting majority of an organization's governing authority, and either is able to impose its will upon the entity or there exists a financial benefit or burden relationship with the State. For those entities in which the State does not appoint a voting majority of the governing authority, GASB Statement No. 14 requires inclusion in the reporting entity if they are fiscally dependent on the State or if it would be misleading to exclude the authority.

GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement 14, establishes criteria for legally separate, tax-exempt entities that should be reported as component units if all of the criteria are met. Although the State has not identified any organizations that would qualify as direct component units of the State by meeting all of the criteria of GASB Statement No. 39, most of the university component units described later in this note have significant foundations that meet the criteria of GASB Statement No. 39.

#### **Blended Component Units**

The State Building Authority and the Michigan Underground Storage Tank Financial Assurance Finance Authority are legally separate organizations that have boards appointed by the primary government and provide services primarily to benefit the State. Therefore, they are reported as though they were part of the primary government, using the blending method.

#### **Discretely Presented Component Units**

These types of component units are reported in separate columns or rows in the government-wide statements to emphasize that they are legally separate from the government.

The State is able to impose its will upon these discretely presented component units:

The Michigan Education Trust offers contracts, which, for actuarially determined amounts, provide plan participants with future tuition at institutions of higher education.

The Michigan State Housing Development Authority finances loans for the construction of single and multi-family housing and home improvement projects.

The Michigan Municipal Bond Authority assists local units by pooling their borrowing activities. This authority is also responsible for assisting local units with their financing of water pollution control projects.

The Mackinac Bridge Authority accounts for the operation of the Mackinac Bridge.

The Michigan Broadband Development Authority is a financing authority that assists in the build-out of broadband infrastructure to accelerate the deployment of high-speed Internet connections Statewide.

The Michigan Higher Education Assistance Authority is the State guaranty agency under the Stafford Loan Program, the Supplemental Loans to Students Program, and the Parent Loan for Undergraduate Students Program. This Authority also administers scholarships and grants that are financed with General Fund appropriations.

The Michigan Higher Education Facilities Authority accounts for the administration of no-commitment debt issued for the benefit of private institutions of higher education.

The Michigan Higher Education Student Loan Authority is a financing authority that makes loans to students or their parents.

The Michigan Public Educational Facilities Authority partners with other states to facilitate the acquisition of capital for the construction, rehabilitation, refurbishing, or equipping of qualified public educational facilities.

The Michigan State Hospital Finance Authority accounts for the administration of limited obligation debt issued for the benefit of hospitals.

The Michigan Strategic Fund provides business enterprises with additional sources of financing.

There is a financial burden/benefit relationship between these entities and the State:

The Mackinac Island State Park Commission operates the Mackinac Island and Michilimackinac State Parks.

The Michigan Economic Development Corporation manages programs to stimulate, coordinate, and advance economic development in the State.

The following entity's relationship with the State would be misleading if it were omitted from the State's reporting entity:

The State Bar of Michigan is a public body corporate whose membership consists of persons licensed to practice law.

Ten of the State's public universities are considered component units because they have boards appointed by the primary government. Their balances and operating results are included with the other discretely presented components units on the

government-wide statements. The ten universities included in these statements are: Central Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, Saginaw Valley State University, and Western Michigan University. Michigan State University, the University of Michigan, and Wayne State University are not included in the State's reporting entity because they have separately elected governing boards and are legally separate. The State provides significant funding to support these institutions; however, under GASB Statement No. 14 criteria, they are considered fiscally independent, special-purpose governments.

Included in the balances and operating results for most of the university component units is financial activity for fund-raising foundations that contribute to these universities. Although the universities do not control the timing or amount of receipts from their foundations, the majority of resources, or income thereon, that the foundations hold and invest are restricted to the activities of the respective universities by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the specific universities, the foundations are considered component units of the universities and are included in the universities' financial statements.

#### **Significant Transactions**

The State's significant transactions with its major discretely presented component units results primarily from providing appropriations to the public universities, including \$90.0 million to Central Michigan University and \$135.6 million to Western Michigan University.

#### **Availability of Financial Statements**

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the various component units. To obtain their phone numbers, you may contact the Office of the State Budget, Office of Financial Management, Financial Reporting Section at (517) 373-3029.

#### **Related Organizations**

The State's Insurance Commissioner is responsible for appointing the members of the boards of the Michigan Catastrophic Claims Association and the Michigan Property and Casualty Guaranty Association, but the State's accountability for these organizations does not extend beyond making the appointments.

#### **Joint Ventures**

As discussed in more detail in Note 7, the State participates in two joint ventures. Its financial activities are not included in the State's fund financial statements, but the State's equity interest is recorded as an asset in the Statement of Net Assets.

#### **Jointly Governed Organizations**

The State, the University of Michigan, Michigan State University, and Wayne State University appoint members of the board of the Michigan Public Health Institute (MPHI), a non-profit corporation. MPH I was established to plan, promote, and coordinate health services research with a public university or a consortium of public universities in the State. The State does not appoint a majority of the board, has no rights to the assets, and is not responsible for debts of MPH I. Therefore, the State's accountability for MPH I does not extend beyond making the appointments. During fiscal year 2003-2004, the State awarded contracts totaling \$30.2 million to MPH I.

## **B. Government-Wide and Fund Financial Statements**

### **Government-Wide Financial Statements**

The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The **Statement of Net Assets** presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

**Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

**Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

**Unrestricted net assets** consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue.

### **Fund Financial Statements**

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

## **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

### **Measurement Focus and Basis of Accounting**

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon

as all eligibility requirements imposed by the provider have been met.

As allowed by GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the State's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. FASB pronouncements issued after November 30, 1989, are not followed in the preparation of the accompanying financial statements.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become *susceptible to accrual*; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers tax revenues and court settlements to be available if they are collected within 60 days of the end of the fiscal period. Revenues that the State earns by incurring obligations are recognized in the period when all applicable eligibility requirements have been met and the resources are available.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments, are recorded only when payment is due and payable.

#### **Financial Statement Presentation**

The State reports the following major governmental funds:

The General Fund is the State's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

The Counter-Cyclical Budget and Economic Stabilization Fund, commonly referred to as the "Rainy Day Fund," was created to assist in stabilizing revenue and employment during periods of economic recession and high unemployment.

The School Aid Fund's purpose is to aid in the support of the public schools and the intermediate school districts.

The State reports the following major enterprise funds:

The State Lottery Fund accounts for the operations of the State's lottery, bingo, and charitable game operations.

The Michigan Unemployment Compensation Funds receive contributions from employers and provide benefits to eligible unemployed workers.

Additionally, the State reports the following fund types:

#### **Governmental Fund Types:**

**Special Revenue Funds** - include operating fund activities financed by specific revenue sources that are legally restricted for specified purposes. Examples include conservation, transportation, regulatory, and other activities.

**Debt Service Funds** - account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

**Capital Projects Funds** - account for the acquisition or construction of major State capital facilities financed by bond proceeds and commercial paper notes.

**Permanent Funds** - report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry, such as veterans, child abuse and neglect prevention, state park preservation, and others.

#### **Proprietary Fund Types:**

**Enterprise Funds** - report the activities for which fees are charged to external users for goods or services, such as the State's liquor sales. This fund type is also used when the activity is financed with debt that is secured by a pledge of the net revenues from the fees.

**Internal Service Funds** - provide goods or services primarily to other agencies or funds of the State, rather than to the general public. These goods and services include prisoner-built office furnishings; motor pool services; printing, reproduction and mailing services; information technology; risk management; and health-related fringe benefits. In the government-wide statements, internal service funds are included with governmental activities.

#### **Fiduciary Fund Types:**

**Pension (and other employee benefit) Trust Funds** - report resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit pension plans, defined contribution plans, and other postemployment benefit plans.

**Private Purpose Trust Funds** - report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. Examples include the State's Escheats Fund, gifts to the State, worker disability monies, and others.

**Agency Funds** - report assets and liabilities for deposits and investments entrusted to the State as an agent for others.

### **D. Fiscal Year-Ends**

All funds and discretely presented component units are reported using fiscal years which end on September 30, except for the Michigan State Housing Development Authority and the ten State universities, which utilize June 30 year-ends.

### **E. Assets, Liabilities, and Net Assets/Fund Balance**

#### **Cash and Cash Equivalents**

On the Statement of Cash Flows, the amount reported as "Cash and cash equivalents" is equal to the total of the amounts on the Statement of Net Assets "Cash" and "Equity in Common Cash," less the amount of "Warrants outstanding."

#### **Cash**

Cash reported on the Statement of Net Assets and the Balance Sheet consists of petty cash, undeposited receipts, deposits in transit to the Common Cash pool, and cash equivalents such as short-term investments with original maturities of less than three months that are used for cash management, rather than investing activities.

### **Equity in Common Cash**

The State Treasurer maintains centralized management of most State cash resources (not including component units). From the perspective of the various State funds, the pool functions as both a cash management pool and a demand deposit account. The operations and investments of the Common Cash pool are described in Note 5.

### **Taxes Receivable**

Taxes receivable represent amounts due to the State at September 30, which will be collected sometime in the future. In the government-wide financial statements, a corresponding amount is recorded as revenue. In the governmental fund financial statements, the portion considered "available" (i.e., received by the State within approximately 60 days after year-end) is recorded as revenue; the remainder is recorded as deferred revenue. Application of the measurability and availability criteria regarding taxes is described in Note 6.

### **Amounts Due From Federal Agencies**

For most federally funded programs, revenue is accrued in the same period as related obligations are recorded. In certain programs financed entirely by the federal government, expenditures and related revenues are recognized only to the extent of billings received by fiscal year-end. This treatment, which is generally limited to certain programs within the Department of Education, understates both assets and liabilities, and expenditures and revenues; however, there is no impact on net assets or fund balance.

### **Inventories**

Inventories are valued at cost, primarily using the first-in, first-out flow method. Expenditures (governmental funds) and expenses (proprietary funds) are recognized using the consumption method (i.e., when used or sold).

### **Investments**

Generally, investments are reported at fair value, consistent with the provisions of GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury obligations are reported at amortized cost. Additional disclosures describing investments are provided in Note 8.

### **Security Lending Collateral**

Securities on loan for cash collateral are reported in the Statement of Net Assets. Liabilities resulting from the security lending transactions are also reported. Additional disclosures describing security-lending transactions are provided in Note 8.

### **Other Assets**

Other assets include receivables, amounts held in escrow, and other types of assets not reported on other lines.

### **Mortgages and Loans Receivable**

Mortgages and loans receivable are reported net of unamortized premiums, discounts, deferred loan origination fees, and allowances for possible losses.

### **Capital Assets**

Capital assets, which include land, buildings, equipment and infrastructure assets (e.g., roads, bridges, ramps, and similar items), are reported in the government-wide statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide statements. Capital assets are reported at historical cost or, if donated, at the estimated fair market value at the date of acquisition. In some instances, capital asset

historical costs were not available; therefore, the costs of these assets at the dates of acquisitions have been estimated.

Interest incurred during construction is only capitalized in proprietary funds. Most capital assets are depreciated over their useful lives, using the straight-line depreciation method. However, the State's significant infrastructure assets utilize an alternative accounting treatment in which costs to maintain and preserve these assets are expensed and no depreciation expense is recorded. This approach is discussed further in the Required Supplementary Information portion of this report.

Additional disclosures related to capital assets and assets acquired through capital leases are provided in Notes 9 and 11, respectively.

### **Warrants Outstanding**

Warrants outstanding represent drafts issued against the State Treasurer's Common Cash pool, which have not yet cleared. These are similar to outstanding checks; however, the issuing funds' balances in the pool are not reduced until warrants are redeemed.

### **Income Tax Refunds Payable**

The amount of collected or accrued personal income tax revenues that will be refunded is estimated and accrued as a General Fund liability. Note 15 more fully describes this liability.

### **Prize Awards Payable**

The State Lottery Fund makes long-term prize awards for certain games, most notably the lotto games. At September 30, 2004 long-term prize awards of \$617.3 million were reported at a present value of \$430.2 million, using discount rates ranging from 5.0 to 8.5%.

Non-installment prize awards and the portion of long-term awards payable during the next fiscal year, totaling \$135.7 million, are included with "Accounts payable and other liabilities" on the Statement of Net Assets.

### **Deferred Revenue**

In the government-wide statements and proprietary fund financial statements deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental fund statements deferred revenue is recognized when revenue is unearned or unavailable.

### **Long-Term Liabilities**

In the government-wide statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Long-term liabilities are more fully described in Notes 12, 13, and 14.

### **Compensated Absences**

In the government-wide statements and proprietary fund financial statements, compensated absences are reported as liabilities as required by GASB.

Employees accumulate annual leave (vacation) balances to maximum amounts ranging from 256 to 316 hours. They receive a 100% termination payment upon separation based upon their final rate of pay. The liability for annual leave is valued at 100% of the balance plus the State's share of social security and retirement contributions.

Employee sick leave balances accumulate without limit. Termination payments are made only upon separation from State service and only to employees hired prior to October 1, 1980. Payments at retirement or death are based on 50% of the employee's sick leave accumulation, times their last rate of pay. When separating for any other reason, employees are paid a percentage of their unused sick leave that increases from 0 to 50%, depending upon the balance of their sick leave hours. Sick leave is valued at 0 to 50% plus the State's share of social security contributions, based on the pay rates in effect as of September 30, 2004.

The State instituted a banked leave time program in fiscal year 2004 whereby eligible employees work a regular schedule but receive pay for a reduced number of hours. The unpaid hours worked accrue to a banked leave time account. Upon an employee's separation, death, or retirement from State service, unused banked leave time hours shall be contributed by the State to the employee's account within the State's 401k plans, and if applicable to the State's 457 plans. The banked leave liability is valued at the pay rates in effect as of September 30, the fiscal year-end.

In the governmental fund financial statements, liabilities for compensated absences are accrued when they are considered "due and payable" and recorded in the fund only for separations or transfers that occur before year-end.

### **Net Assets/Fund Balance**

The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements, and "Fund Balance" on governmental fund statements.

### **Reservations**

Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reserved fund balances reflect either: 1) funds legally segregated for a specific use or 2) assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund. Note 21 provides a disaggregation of reserved fund balances.

## **F. Revenues and Expenditures/Expenses**

### **Government-Wide Financial Statements**

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g. general government, education, transportation, etc). Additionally, revenues are classified between program and general revenues. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

### **Interest on Long-Term Debt**

Interest charges on the State's general long-term liabilities do not qualify as a direct expense of a function and are reported on this line, unless the borrowing is essential to the creation or continuing existence of a program. During fiscal year 2003-2004, interest charges on general long-term liabilities totaling \$22.1 million were reported as functional expenses.

### **Fund Financial Statements**

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted." General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g., federal grants), available only for specified purposes. Unused restricted revenues at year-end are recorded as reservations of fund balance. When both general purpose and restricted funds are available for use, it is the State's policy to use restricted resources first.

In the governmental fund financial statements, expenditures are reported by character: "Current," "Capital outlay," "Intergovernmental-revenue sharing," or "Debt service." Current expenditures are subclassified by function and are for items such as salaries, grants, supplies, and services. Tax expenditures, which represent income tax credit programs that are in substance grants, are also reported as current expenditures. These are described in more detail in Note 15.

Capital outlay includes expenditures for capital assets. Intergovernmental-revenue sharing accounts for the distribution of certain tax revenues that are shared with local units based upon constitutional and statutory requirements. Debt service includes both interest and principal outlays related to bonds and payments on capitalized leases.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g., salaries, depreciation, and purchases for resale). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

### **Other Financing Sources**

These additions to governmental fund balances in the fund financial statements include resources and financing provided by bond proceeds, capital leases, and transfers from other funds.

### **Reimbursements**

Reimbursements result when a fund originally making a disbursement receives resources from another fund to which the expenditure/expense is more properly attributable. For example, the State uses this method when the administrative costs of proprietary funds, discretely presented component units, or pension (and other employee benefit) trust funds are appropriated in the General Fund.

### **Interfund Services Provided and Used**

When a sale or purchase of program-related goods and/or services between funds occurs, for a price approximating their external exchange value, the seller reports revenue and the purchaser expenditure or expense, depending upon the fund type.

Transactions between the primary government and a discretely presented component unit are generally classified as revenues and expenses, unless they represent repayments of loans or similar activities.

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**Notes to the Financial Statements**

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**Other Financing Uses**

These reductions of governmental fund resources in fund financial statements normally result from transfers to other funds.

**G. Interfund Activity and Balances**

**Interfund Activity**

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities (examples include the transfers of profits from the Liquor Purchase Revolving Fund to General Fund and the Lottery Fund to the School Aid Fund) and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column (examples include activities between the Department of

Treasury [general government line] and the Department of Education [education line]). Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets (such as goods or cash) without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund which expends the resources. An example is gas taxes collected by the Department of Transportation but expended by the Department of Natural Resources.

**Interfund Balances**

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

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**NOTE 2 – FUNDS AND COMPONENT UNITS BY CLASSIFICATION**

The following table lists all of the funds and component units whose balances are reflected in this financial report.

Operating funds which are subject to annual appropriation and for

which budget and actual schedules are included in this report are identified by an \*\*\*. For each fund or component unit listed, the SOMCAFR page number of the first financial statement for that fund or component unit is shown in parenthesis.

**PRIMARY GOVERNMENT:**

**MAJOR FUNDS**

**Governmental:**

General Fund\* (p. 20)  
Counter-Cyclical Budget and Economic Stabilization Fund\* (p. 20)  
School Aid Fund\* (p. 20)

**Proprietary:**

State Lottery Fund (p. 26)  
Michigan Unemployment Compensation Funds (p. 26)

**NON-MAJOR FUNDS**

**Governmental:**

**Special Revenue Funds:**

**Transportation Related:**

State Aeronautics Fund\* (p. 104)  
State Trunkline Fund\* (p. 104)  
Michigan Transportation Fund\* (p. 104)  
Comprehensive Transportation Fund\* (p. 104)  
Combined State Trunkline Bond Proceeds Fund (p. 105)  
Combined Comprehensive Transportation Bond Proceeds Fund (p. 105)  
Transportation Related Trust Funds (p. 105)

**Conservation, Environment, and Recreation Related:**

Game and Fish Protection Fund\* (p. 114)  
Michigan State Waterways Fund\* (p. 114)  
Marine Safety Fund\* (p. 114)  
Game and Fish Protection Trust Fund (p. 114)  
State Park Improvement Fund\* (p. 114)  
Combined Recreation Bond Fund - Local Projects (p. 115)  
Combined Environmental Protection Bond Fund (p. 115)  
Michigan Nongame Fish and Wildlife Fund\* (p. 115)  
Forest Development Fund\* (p. 115)  
Michigan Underground Storage Tank Financial Assurance Fund (p. 115)  
Bottle Deposits Fund (p. 115)

**Regulatory and Administrative Related:**

Michigan Employment Security Act – Administration Fund\* (p. 124)  
Safety Education and Training Fund\* (p. 124)  
State Construction Code Fund\* (p. 124)  
Homeowner Construction Lien Recovery Fund\* (p. 124)  
State Casino Gaming Fund\* (p. 125)  
Second Injury Fund (p. 125)  
Silicosis, Dust Disease, and Logging Industry Compensation Fund (p. 125)  
Self-Insurers' Security Fund (p. 125)  
Utility Consumer Representation Fund (p. 125)

**Other State Funds:**

School Bond Loan Fund (p. 134)  
Tobacco Settlement Trust Fund\* (p. 134)  
Michigan Merit Award Trust Fund\* (p. 134)  
Assigned Claims Facility and Plan Fund (p. 135)  
Miscellaneous Special Revenue Funds (p. 135)

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**Debt Service Funds:**

Combined State Trunkline Bond and Interest Redemption Fund (p. 142)  
Combined Comprehensive Transportation Bond and Interest Redemption Fund (p. 142)  
Recreation and Environmental Protection Bond Redemption Fund (p. 142)  
School Loan Bond Redemption Fund (p. 143)  
State Building Authority (p. 143)  
Michigan Underground Storage Tank Financial Assurance Finance Authority (p. 143)

**Capital Projects Funds:**

Combined Recreation Bond Fund - State Projects (p. 148)  
Advance Financing Funds (p. 148)  
State Building Authority (p. 148)

**Permanent Funds:**

Michigan Natural Resources Trust Fund\* (p. 152)  
Michigan State Parks Endowment Fund\* (p. 152)  
Michigan Civilian Conservation Corps Endowment Fund\* (p. 152)  
Michigan Veterans' Trust Fund\* (p. 153)  
Children's Trust Fund\* (p. 153)

**Proprietary:**

**Enterprise Funds:**

Liquor Purchase Revolving Fund (p. 160)  
Attorney Discipline System (p. 160)

**Internal Service Funds:**

Correctional Industries Revolving Fund (p. 164)  
Motor Transport Fund (p. 164)  
Office Services Revolving Fund (p. 164)  
Information Technology Fund (p. 165)  
Risk Management Fund (p. 165)  
State Sponsored Group Insurance Fund (p. 165)

**Fiduciary:**

**Pension (and other employee benefit) Trust Funds:**

State Employees' Deferred Compensation Funds (p. 172)  
Legislative Retirement Fund (p. 172)  
State Police Retirement Fund (p. 172)  
State Employees' Retirement Fund (p. 173)  
Public School Employees' Retirement Fund (p. 173)  
Judges' Retirement Fund (p. 173)  
State Employees' Defined Contribution Retirement Fund (p. 173)

**Private Purpose Trust Funds:**

Escheats Fund (p. 178)  
Gifts, Bequests, and Deposits Investment Fund (p. 178)  
Hospital Patients' Trust Fund (p. 178)  
Michigan Education Savings Program (p. 178)

**Agency Funds:**

Environmental Quality Deposits Fund (p. 181)  
Insurance Carrier Deposits Fund (p. 181)  
State Treasurer's Escrow and Paying Agent Fund (p. 181)  
Child Support Collection Fund (p. 181)

**DISCRETELY PRESENTED COMPONENT UNITS:**

**Authorities:**

**Major Funds:**

Michigan Education Trust (p. 36)  
Michigan State Housing Development Authority (p. 36)  
Michigan Municipal Bond Authority (p. 36)

**Non-Major Funds:**

Mackinac Bridge Authority (p. 186)  
Mackinac Island State Park Commission (p. 186)  
Michigan Broadband Development Authority (p. 186)  
Michigan Economic Development Corporation (p. 186)  
Michigan Higher Education Assistance Authority (p. 186)  
Michigan Higher Education Facilities Authority (p. 187)  
Michigan Higher Education Student Loan Authority (p. 187)  
Michigan Public Educational Facilities Authority (p. 187)  
Michigan State Hospital Finance Authority (p. 187)  
Michigan Strategic Fund (p. 187)  
State Bar of Michigan (p. 187)

- (1) Michigan State University, the University of Michigan, and Wayne State University are not included in the State's reporting entity because they have separately elected governing boards and are legally separate from the State.

**State Universities (1):**

**Major Funds:**

Central Michigan University (p. 37)  
Western Michigan University (p. 37)

**Non-Major Funds:**

Eastern Michigan University (p. 192)  
Ferris State University (p. 192)  
Grand Valley State University (p. 192)  
Lake Superior State University (p. 192)  
Michigan Technological University (p. 193)  
Northern Michigan University (p. 193)  
Oakland University (p. 193)  
Saginaw Valley State University (p. 193)

The State provides significant funding to support these institutions; however, under GASB Statement No. 14 criteria, they are considered fiscally independent special-purpose governments.

## NOTE 3 – BUDGETING, BUDGETARY CONTROL, AND LEGAL COMPLIANCE

### A. Major Constitutional and Statutory Provisions

#### Balanced Budget Requirements

Article 5 of the State Constitution mandates that the executive budget recommend spending limits for operating funds to the Legislature that are within available resources. Compliance with this is demonstrated in the executive budget and budget bills for each fiscal year.

Article 4 of the State Constitution mandates the Legislature to enact appropriations for each operating fund that do not exceed that fund's revenue estimates, including beginning unreserved fund balance.

Compliance with this requirement is demonstrated in schedules included in the annual appropriation acts, usually the "General Government" appropriation act. When it appears that revenue will fall below the estimates on which the appropriations are based, the Governor is required to recommend spending reductions as necessary to avoid a year-end deficit.

#### Local Spending Requirements

Article 9, Section 30 of the State Constitution requires that State spending to, or on behalf of, local units of government shall not fall below a specified percentage of total State spending. The percentage, recalculated effective with fiscal year 1992-1993, is 48.97 %.

Final calculations establishing the State's compliance with this constitutional provision for fiscal year 2003-2004 are not yet complete. For fiscal year 2002-2003, the most recent year for which final calculations are available, the proportion of total State spending paid to local units of government was determined to be 62.7%, reflecting payments that exceeded the minimum required by \$3.5 billion. The State expects that payments to local units of government will exceed the minimum requirement for fiscal year 2003-2004.

#### Revenue Limits

Article 9, Section 26, of the State Constitution restricts State revenues to a ceiling that is based upon revenues as a proportion of total personal income for the State. The base year ratio, determined in fiscal year 1978-1979, in relation to calendar year 1977 personal income, is 9.49%. Both the constitutional language and implementing statutes provide for other adjustments to the revenue and personal income calculations. If revenues exceed the limit by 1% or more, the amount in excess must be refunded to personal income tax payers and payers of the State's single business tax. If the limit is exceeded by an amount less than 1%, the excess may be deposited into the State's Budget Stabilization Fund. The calculations determining the State's compliance with this constitutional provision for fiscal year 2003-2004 are not final. For fiscal year 2002-2003, the most recent year for which final

calculations are available, total State revenues subject to this limitation were beneath the constitutional limit by \$4.2 billion. The State expects that total State revenues subject to the limitation will not exceed the limit for fiscal year 2003-2004.

#### Budget Stabilization Fund

The Counter-Cyclical Budget and Economic Stabilization Fund ("Budget Stabilization Fund") was created by P.A. 76 of 1977 to assist in stabilizing revenue and employment during periods of economic recession. In general, the law requires payments into the fund when real economic growth exceeds 2% and allows withdrawals from the fund when real economic growth is less than 0%. Funds can also be withdrawn when the State's unemployment rate exceeds 8% or upon appropriation to finance capital outlay or other projects, or for other purposes designated by the Legislature.

The following table summarizes the transactions for the fund for fiscal year 2003-2004 (in millions):

Beginning unreserved fund balance	\$ -
Transfer from General Fund	81.3
Ending unreserved fund balance	<u>\$ 81.3</u>

The transfer from the General Fund was pursuant to P.A. 309 of 2004, Section 204. This transfer was made as a result of the General Fund reporting an unreserved fund balance as of September 30, 2004.

#### Budgetary Overexpenditures

In the event that expenditures exceed authorization during a year, the department must request a supplemental appropriation for the amount overspent, if that amount exceeds their lapses or if they expect to make payments from prior year authorization in the next fiscal year. There were the following line-item overexpenditures of State departments incurred during the year, which represent noncompliance with State budget laws (in millions):

General Fund	
Community Health	\$ 47.1
Family Independence Agency	1.1
General Fund Total	<u>\$ 48.3</u>

Subsequent to the release of this report, the State publishes "Statewide Authorization Dispositions" to demonstrate its compliance with the legal level of budgetary control. The report includes line-item appropriation details for the General Fund and budgeted operating funds, and is available by contacting the Office of Financial Management at (517) 373-3029.

## **NOTE 4 – ACCOUNTING CHANGES AND RESTATEMENTS**

The government-wide Statement of Activities includes an increase in beginning net assets for \$202.9 million due to the State's implementation of Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-1, Tobacco Settlement Recognition and Financial Reporting Entity Issues. In November 1998, 46 states, including Michigan, settled with the major tobacco companies in a settlement agreement that precludes the states from attempting future litigation in exchange for monetary awards that will continue in perpetuity. Prior to GASB Technical Bulletin No. 2004-1, the State was accounting for the tobacco settlement payments as revenue when received. With implementation of the bulletin, the State is now required to recognize revenue and a receivable for the portion of the next payment to be received but already earned as of September 30 based on the fiscal year's pro-rated share of cigarette sales. The restatement to beginning net assets represents the amount of revenue that would have been recognized in prior years using the new revenue recognition requirements of the technical bulletin.

The Attorney Discipline System, an enterprise fund, shows an increase of \$1.0 million to beginning net assets. This fund is being presented in the State's financial statements for the first time this fiscal year. The increase in beginning net assets reflects the net assets of the fund that would have been disclosed in prior years had the Attorney Discipline System been reported in the State's financial statements in prior years.

The Michigan State Housing Development Authority, a discretely presented component unit, increased its beginning net assets by \$13.5 million to reflect a change in accounting for grants from previously issued financial statements. Previously, this component unit recorded grant commitments based on the commitment date and not when the grants were earned by the grantee. Generally accepted accounting principles require commitments to be recognized as expenses when earned.

Seven of the ten state universities reported as discretely presented component units increased beginning net assets by a combined total of \$311.1 million due to the implementation of GASB Statement No. 39. This new accounting standard requires each university to include in their financial statements the activities of foundations that raise significant economic resources for the direct benefit of the university. The increase in beginning net assets for the universities represents the net assets held by the foundations at the beginning of the fiscal year and not previously reported in the universities' financial statements.

During fiscal year 2004, the State implemented an accounting change for its estimate of State Education Tax (SET) receivable at September 30 to include SET collected by local governments but not yet remitted to the State. This change in estimate resulted in increased current year revenue of \$78.4 million in the School Aid Fund, a special revenue fund.

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## **NOTE 5 – TREASURER'S COMMON CASH**

### **A. General Accounting Policies**

The State Treasurer manages the State's Common Cash pool, which is used by most state funds. The pooling of cash allows the Treasurer to invest monies not needed to pay immediate obligations so that investment earnings on available cash are maximized. Investments of the pool are not segregated by fund; rather, each contributing fund's balance is treated as equity in the pool, and presented in this report as "Equity in common cash." Many funds, including pension (and other employee benefit) trust funds, use their equity in the pool as a short-term investment vehicle.

All negative balances in the pool are reclassified at year-end as interfund liabilities. If the negative balance is considered long-term, the reclassification is recorded as an advance.

Statute or administrative policy determines whether a particular fund receives or pays interest on its balances in the pool. If a fund does not receive or pay interest, the General Fund receives or absorbs such amounts. Earnings on positive balances and charges on negative balances are allocated quarterly based upon the average daily balances of the various funds and the average investment earnings rate for the quarter. Accrued earnings of the pool are recorded as assets, with the accrual allocated to the various funds' equity in the pool.

Interest revenues on positive balances and interest charges on negative balances are reflected as revenues or expenditures/expenses of each of the participating funds.

### **B. Investments and Deposits**

The investment authority for the Common Cash pool is found in P.A. 105 of 1855, as amended. The State Treasurer may invest surplus funds belonging to the State in the bonds, notes, and other evidences of indebtedness of the United States

Government, and its agencies; and in prime commercial paper. Certificates of deposit are permitted in financial institutions whose principal office is located in the State.

The Treasurer invests excess cash in short-term investments, mostly prime commercial paper. The law does not prohibit the Treasurer from entering into repurchase agreements; however, the Treasurer did not use these agreements in managing the pool in fiscal year 2003-2004.

Statutes provide for certain special State investment programs for which the General Fund is credited (charged) for earnings in excess (under) of those achieved by regular pool investments. There have been no principal losses because of these programs to date.

Emergency Financial Assistance Loan Program: This program provides for emergency loans to local units of government, and is the most significant of the special investment programs. The Emergency Financial Assistance Loan Board, established by P.A. 243 of 1980, administers the program. The Treasurer may not loan more than a combined total of \$5.0 million in any one fiscal year to qualifying cities, villages, or townships in amounts as approved by the Board.

In fiscal year 1999-2000 the Emergency Financial Assistance Loan Board was authorized to approve the lending of up to \$159.9 million to Wayne County to finance the payment of certain obligations to the State. The outstanding balance at September 30, 2004, was \$47.8 million. Loan repayments by the County are supported by provisions of the loan agreement and legislation that pledge the County's share of a portion of the State collected taxes on cigarettes. There were no repayments on the loans in fiscal year 2003-2004.

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**Michigan Marina Dredging Loan Program:** Public Act 280 of 2000 provides for a program under which financial institutions may make low-interest loans to eligible marinas for dredging costs necessitated by low water levels to accommodate the use of the marina by recreational watercraft.

Under this program, the Department of Treasury and a financial institution may enter into an investment agreement under which the Department of Treasury will invest the State's Common Cash with the financial institution at an agreed upon interest rate (generally 1.5 percent per annum). The financial institution will then use the principal to make a low-interest loan to an eligible marina.

The Act specifies that the maximum amount of a Michigan marina-dredging loan is \$75 thousand per marina. The total amount of outstanding loans is statutorily limited to \$20.0 million. The loans accrue interest at a rate of six percent, and the loans' terms may not exceed seven years. Other details about the loans are available in the investment agreement. The total amount on loan at September 30, 2004, was \$201 thousand; repayments during the year were \$68 thousand.

**Michigan Sugar Beet Loan Program:** Public Act 123 of 2001 provides for a program in which the State may make no-interest loans from the Common Cash pool to sugar beet growers' cooperatives for the purpose of buying the assets of agricultural processors who are in or have recently been in bankruptcy proceedings.

The Act specifies that the loans may not exceed \$5.0 million in total, with loan periods not to exceed 5 years. As of September 30, 2004, the loans outstanding totaled \$5.0 million, with maturity dates of February 1, 2007.

Public Act 342 of 2004 requires the State Treasurer, as part of the modification to the loan, to subordinate a loan of not more than \$5.0 million to the primary loan of a sugar beet growers' cooperative (Michigan Sugar Beet Growers, Inc.) and relinquish any enforcement powers or authority that may exist under the current contract or agreement.

**Agriculture Disaster Relief Program:** Public Act 16 of 2002 created this program to provide loans to assist farmers and businesses suffering losses as a result of a disaster. Financial institutions (banks) making these loans can have the cost of the loan covered by (1) earnings on funds deposited by the State, or (2) subsidy of the cost.

The maximum loan is \$150 thousand (\$200 thousand under certain circumstances) to farmers and \$400 thousand per legal entity to businesses. The total amount the State may deposit under this program is \$30.0 million. Of that amount, no more than \$10.0 million may be allocated to qualified agricultural loans made to businesses. Details on what constitutes a qualified loan can be found in the statute. Loans must be made before October 1, 2002, and must be repaid by October 1, 2007.

As of September 30, 2004, the State had deposited a total of \$4.7 million with three different financial institutions. Subsidy payments totaled \$2.0 million and repayments totaled \$54.4 million.

Assets and equities of the Common Cash pool as of September 30 were as follows (in millions):

<b>Assets</b>	
Cash on hand	\$ -
Demand deposits	249.7
Time deposits - regular	-
Time deposits - Marina Loan Programs	.2
Time deposits - Agricultural Loan Program	4.7
Prime commercial paper - at cost	1,672.8
Interest receivable	1.6
Emergency loans to local units - at cost	48.9
Michigan Sugar Beet Loan Program	5.0
<b>Total assets</b>	<b>\$ 1,982.8</b>
<b>Equities</b>	
Fund equities (net) in Common Cash (1):	
Governmental activities	\$ 1,554.4
Business-type activities	71.4
Fiduciary funds	281.9
Discretely presented component units	75.1
<b>Net fund equities</b>	<b>\$ 1,982.8</b>

- (1) Negative equity balances in the pool are reclassified at year-end as interfund receivables and liabilities. Current balances are included with "Amounts due from other funds" and "Amounts due to other funds" and long-term amounts are classified as interfund advances. Note 17 summarizes interfund receivables and liabilities.

The following paragraphs provide disclosures about deposits and investments of the Common Cash pool, as required by GASB Statement No. 3. Please see Note 8 for a description of the GASB custodial credit risk categories and for information about deposits and investments, which are not part of the Common Cash pool.

### Deposits

At September 30, 2004, the carrying amount of deposits, including time and demand deposits, was \$254.6 million. The deposits were reflected in the accounts of the banks at \$254.6 million. Of the bank balance, \$4.6 million was covered by federal depository insurance (GASB credit risk category 1), \$249.6 million was collateralized with securities held by the State's agent in the State's name (GASB credit risk category 1), and \$.4 million of demand deposits which are uninsured and uncollateralized (GASB credit risk category 3). Compensating balances kept in demand deposit accounts to avoid service charges totaled \$243.2 million at September 30, 2004.

### Investments

Using the GASB categories of custodial credit risk, all of the investments (including prime commercial paper, corporate notes, and emergency municipal loans) are in category 1. The sugar beet loans are evidenced by zero interest promissory notes. The emergency municipal loans are evidenced by notes held by the State in the State's name, so they fall in custodial credit risk category 1. At September 30, 2004, the fair value of prime commercial paper was \$1.7 billion.

## NOTE 6 – TAXES RECEIVABLE

Taxes receivable represent amounts due to the State at September 30, for revenues earned in fiscal year 2003-2004, which will be collected sometime in the future. Amounts expected to be collected in the next fiscal year are classified as “current” and amounts expected to be collected beyond the next fiscal year are classified as “noncurrent.” The receivables have been recorded net of allowances for uncollectibles.

Sales, use, single business, and income taxes are accrued to the extent that the related sales, wage, or activity being taxed occurred prior to October 1. Property taxes receivable are accrued when taxes are levied against the property owners. Single business taxes are accrued if received prior to December 1 (i.e., quarterly filings due November 30).

In the government-wide financial statements, a corresponding amount is recorded as revenue using the accrual basis of accounting. In the governmental fund financial statements, revenue is recorded using the modified accrual basis of accounting for

amounts due to the State at September 30 (as stated above) that are considered “available” (e.g. received by the State within approximately 60 days after that date). The remainder is recorded as deferred revenue.

Local units of government, as agents for the State, assess the State property tax. Taxes are due and payable at the same time as local unit taxes and were generally divided into a summer portion payable to the local units on the succeeding July 1 and a winter portion due December 31. Beginning in fiscal year 2002-2003, local units are required to levy property taxes in July. The State accrues revenues received by the State or the local units, on its behalf, during October and November. Since the property taxes are levied and received by the local units, it is not feasible for the State to measure and record delinquent amounts receivable and, therefore, no delinquent amounts are recorded or reflected in the table below. The accrued telephone and telegraph taxes are due December 1 and were received at approximately that time. Delinquent taxes are recognized to the extent that they will be collected within 12 months.

Taxes receivable as of September 30, consisted of the following (in millions):

<u>Tax</u>	General Fund	Special Revenue Funds	Total
Sales & use	\$ 329.1	\$ 660.7	\$ 989.7
Individual income	1,488.3	168.8	1,657.1
Single business	1,510.5	-	1,510.5
State education (property)	-	1,249.5	1,249.5
Telephone & telegraph	48.2	-	48.2
Motor fuel	-	236.8	236.8
Insurance - retaliatory	63.7	-	63.7
Estate & inheritance	9.6	-	9.6
Tobacco products	88.3	70.8	159.1
Quality assurance assessment	65.4	-	65.4
Other	27.0	60.1	87.1
Penalties and interest	1,096.6	.2	1,096.9
Gross taxes receivable	4,726.8	2,446.9	7,173.6
Less allowance for uncollectibles	2,002.3	454.7	2,457.0
Total taxes receivable (net)	<u>\$ 2,724.5</u>	<u>\$ 1,992.1</u>	<u>\$ 4,716.6</u>
<u>As reported on the financial statements</u>			
Current taxes receivable	\$ 2,498.0	\$ 1,946.6	\$ 4,444.6
Noncurrent taxes receivable	226.4	45.6	272.0
Total taxes receivable (net)	<u>\$ 2,724.5</u>	<u>\$ 1,992.1</u>	<u>\$ 4,716.6</u>

## NOTE 7 – JOINT VENTURES

The State participates in two joint ventures as described below. Joint ventures are not reflected as component units within this report because they do not meet the GAAP criteria for inclusion. Their separately issued financial statements may be obtained by directly contacting the applicable organizations. To obtain their phone numbers, you may contact the Office of the State Budget, Office of Financial Management, Financial Reporting Section at (517) 373-3029.

### Great Lakes Protection Fund

(GLPF) is a not-for-profit corporation located in Evanston, Illinois. Its purpose is to finance and support research with respect to water quality of the Great Lakes. The eight states bordering the Great Lakes are eligible to become members if they make a required contribution to the endowment of GLPF.

Contribution requirements were established based upon water consumption and usage. Contributions to GLPF are permanently restricted and are not available for disbursement. Michigan is the largest contributor, having made a contribution of \$25.0 million, constituting approximately 31% of the total. Michigan made its required contribution by issuing GLPF a general obligation bond authorized as part of the State's environmental protection bond program. No additional contributions from Michigan will be required.

Two members on GLPF's board of directors represent each of the participating seven member states. The states' respective governors select the board members. Directors control GLPF's financing and budgeting operations, within requirements established by the Articles

of Incorporation. One-third of the net earnings on total contributions (after operating expenses) is granted to the respective states in proportion to their contributions to GLPF. Two-thirds of the net earnings are available to GLPF to make other grants. The State's equity interest in GLPF of \$25.0 million is reflected as an asset in the government-wide statements.

### Joint International Bridge Authority

The International Bridge in Sault Ste. Marie, Michigan is a joint venture of the State and Canadian governments. The Authority consists of six people, three appointed by each government. The Authority oversees the operations and maintenance of the Bridge. The International Bridge Administration, an administrative entity within the Michigan Department of Transportation, is responsible for the day-to-day operations of the Bridge. The Authority reimburses the State for costs incurred to provide these services.

For the period ending December 31, 2003 (the Authority's most recently audited financial statements), its net assets increased by approximately \$1.2 million. The Bridge and the ancillary assets on Michigan's side of the Bridge, in addition to one-half of the balance of funds not required to pay liabilities, represent the State's equity interest. The State is obligated to pay one-half of any claims incurred by the Authority that are not covered by insurance or existing resources. The State's equity interest of \$6.5 million is reflected as an asset in the government-wide statements.

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## NOTE 8 – DEPOSITS AND INVESTMENTS

### A. General Information

This note provides information for all deposits and investments except those of the Common Cash pool, which are described in Note 5. GASB Statement No. 3 requires certain disclosures regarding policies and practices with respect to deposits, investments, and the custodial credit risk associated with them.

#### Deposits

In accordance with GASB Statement No. 3, deposits are classified into three categories of custodial credit risk as follows:

**Category 1:** Insured or collateralized with securities held by the entity or by its agent in the entity's name.

**Category 2:** Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

**Category 3:** Uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name).

#### Investments

In accordance with GASB Statement No. 3, investments are also classified into three categories of custodial credit risk as follows:

**Category 1:** Insured or registered, or securities held by the entity or its agent in the entity's name.

**Category 2:** Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

**Category 3:** Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the entity's name. (This includes the portion of the carrying amount of any repurchase agreement that exceeds the fair value of the underlying securities.)

Certain types of investments are not categorized because they are not evidenced by securities that exist in physical or book entry form. Deposits classified as investments on the balance sheet are included in the investment tables following and are categorized using the deposit risk category definitions.

In accordance with GASB Statement No. 28, Accounting and Financial Reporting for Securities Lending Transactions, securities lent at year-end for cash collateral have not been categorized by custodial risk, while securities lent for securities collateral have been categorized.

## **B. Deposits and Investments - Primary Government**

### **Deposits**

In addition to equity in the Common Cash pool, some State funds maintain deposits with financial institutions. At year-end, the carrying amount of such deposits, excluding those classified as investments, was negative \$11.5 million, which was caused primarily by a net book cash overdraft in an account maintained by the Michigan Unemployment Compensation Funds (MUCF). The deposits were reflected in the accounts of the banks at \$19.5 million. Of the bank balances, \$.1 million was covered by federal depository insurance or by collateral held by the State's agents in the State's name (GASB credit risk category #1), \$15.4 million was covered by collateral held in the pledging banks' trust departments in the State's name (GASB credit risk category #2), and \$4.0 million was uninsured and uncollateralized (GASB credit risk category #3).

### **Investments**

Investment authority for the State's pension (and other employee benefit) trust funds is found in P.A. 314 of 1965, as amended. This act allows the State Treasurer, as investment fiduciary, to make diverse investments in stocks, corporate and government bonds and notes, mortgages, real estate, venture capital, and other investments. The act has prudence standards and requires that the assets of a retirement system shall be invested solely in the interest of the participants and beneficiaries and be made for the exclusive purpose of providing benefits to the participants and the participants' beneficiaries, and of defraying reasonable expenses of investing the assets of the State system.

The State Treasurer is also authorized to invest a limited amount of pension (and other employee benefit) trust funds in futures contracts. Such investments were made in Standard & Poors 500 and Standard & Poors Midcap Index futures contracts during the year. At September 30, 2004, there was \$152.1 million invested in futures contracts. Derivatives are used for a small amount of the pension (and other employee benefit) trust fund portfolios to provide additional diversification. However, derivatives are not used for speculation and they are not used to leverage the investment portfolios. Approximately 10% of the total pension (and other employee benefit) trust funds portfolio has been invested from time to time in futures contracts and swap agreements. The swap agreements provide that the retirement systems will pay

quarterly, over the term of the swap agreements, interest indexed to the three month London Interbank Offered Rate (Libor), adjusted for an interest rate spread, on the notional amount stated in the agreements. United States domestic Libor-based floating rate notes were purchased in the open market to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these notes. Swap agreements represent the largest category of derivatives used and total 10.0% of the total portfolio.

In July 2004, four state retirement systems' (State Employees', State Police, Public School Employees', and Judges') investments were contributed to an investment pool structure. Investments for these systems represent a pro rata share based on ownership of the investment pools. In their separately issued financial statements, these investments are not considered securities for the purpose of assessing credit risk.

The investment authority for other State funds is found in their enabling statutes and/or their bond resolutions where applicable. Except as noted below, the investments of the non-pension (and other employee benefit) trust funds are comprised mostly of United States government securities.

The State Building Authority makes diverse investments as allowed by State statute and/or bond resolutions.

Investments of MUCF represent their interest in a U.S. Treasury trust fund managed by the Secretary of the Treasury pursuant to Title IX of the Social Security Act, which includes deposits from the unemployment compensation funds of various states. MUCF is credited quarterly with trust fund investment earnings, as computed on a daily basis.

The deferred compensation plans are invested in mutual funds, U.S. Treasury strips, money market funds, and pooled investment funds. During fiscal year 2003-2004, the deferred compensation plans' investment activities were managed by a private investment firm, which invests as directed by members of the plan.

As a matter of administrative policy, the State Treasurer makes only limited use of investments in repurchase agreements. No such investments were outstanding at year-end.

**Michigan**  
**Notes to the Financial Statements**

The following table shows the carrying amounts and fair values of investments of the primary government by investment type and in total (in millions) at September 30:

	GASB Category				Total Carrying Value	Fair Value
	#1	#2	#3	Not Categorized		
Prime commercial paper	\$ 3,242.8	\$ -	\$ 23.0	\$ -	\$ 3,265.8	\$ 3,265.8
Money market funds	-	-	5.7	209.6	215.3	215.3
Government securities	2,083.5	-	212.8	-	2,296.3	2,296.3
Investment agreements	6.0	-	-	-	6.0	6.0
Corporate bonds and notes	4,007.2	-	-	-	4,007.2	4,007.2
Preferred stock	.1	-	-	-	.1	.1
Equities	21,207.2	-	-	-	21,207.2	21,207.2
Real estate	-	-	-	3,223.2	3,223.2	3,223.2
Venture capital and leveraged buyouts	32.4	-	-	6,049.9	6,082.3	6,082.3
International	4,554.0	-	-	346.9	4,900.8	4,900.8
U.S. Treasury (unemployment) trust fund	-	-	-	924.6	924.6	924.6
Mutual funds	-	-	1.2	2,552.0	2,553.2	2,553.2
Pooled investment funds	-	-	-	2,004.3	2,004.3	2,004.3
Security Lending Transactions:						
Government securities	-	-	-	2,127.6	2,127.6	2,127.6
Corporate bonds and notes	-	-	-	232.0	232.0	232.0
Equities	-	-	-	733.8	733.8	733.8
Retirement System Pooled Investment Adjustments:*						
Unsettled investment transactions	-	-	-	(155.6)	(155.6)	(155.6)
Cash collateral	-	-	-	(152.1)	(152.1)	(152.1)
Synthetic equities	-	-	-	152.1	152.1	152.1
Accrued interest	-	-	-	108.0	108.0	108.0
Total Investments	<u>\$ 35,133.2</u>	<u>\$ -</u>	<u>\$ 242.7</u>	<u>\$ 18,356.2</u>	<u>\$ 53,732.1</u>	<u>\$ 53,732.1</u>

As Reported on Statement of Net Assets

Current investments	\$ 1,469.1
Noncurrent investments	877.7
Total Investments	<u>\$ 2,346.8</u>

As Reported on the Statements of Net Assets and Statement of Fiduciary Net Assets

	Current Investments	Noncurrent Investments	Total
Governmental activities	\$ 439.5	\$ 380.9	\$ 820.4
Business-type activities	1,029.6	496.8	1,526.4
Fiduciary funds	2,308.1	49,077.1	51,385.2
	<u>\$ 3,777.2</u>	<u>\$ 49,954.9</u>	<u>\$ 53,732.1</u>

\*These adjustments are the result of the Retirement Systems' contributions reverting entirely to investment pools.

Pension (and other employee benefits) trust fund investments represent 94.1% of the total investments of the primary government. Other large holders of investments were the State Lottery Fund and MUCF.

The State Lottery Fund investments, \$600.7 million, are all in the form of zero coupon U.S. Treasury bonds. These investments are held to provide funding for deferred prize awards.

#### **Securities Lending Transactions**

Under the authority of P.A. 314 of 1965, the State lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The custodian is not liable for any losses unless there is negligence or willful misconduct on its part. State statutes allow the State to participate in securities lending transactions, via a Securities Lending Authorization Agreement, authorizing the agent bank to lend its securities to broker-dealers and banks, pursuant to a form of loan agreement. During the fiscal year, the agent bank, at the direction of the State Treasurer, lent securities and received: cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt rated A or better, convertible bonds, Canadian provincial debt, and irrevocable bank letters of credit as collateral. The agent bank did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: 1) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; or 2) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The State Treasurer did not impose any restrictions during the fiscal year on the amount of the loans that the agent bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the agent bank.

During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified and non-qualified tax-exempt plan lenders, in a

collective investment pool. As of September 30, 2004, the investment pool had an average duration of 42 days and an average expected maturity of 546 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2004, the retirement systems had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the State as of September 30, 2004, were \$3.2 billion and \$3.1 billion respectively.

### **C. Deposits and Investments - Discretely Presented Component Units**

#### **Deposits**

At year-end, the carrying amount of discretely presented component units deposits, excluding those classified as investments, was \$303.7 million. The deposits were reflected in the accounts of the banks at \$334.8 million. Of the bank balances, \$13.8 million was covered by federal depository insurance or by collateral held by the component units' agents in the component units' names (GASB credit risk category #1), \$44.1 million was covered by collateral held in the pledging banks' trust departments in the component units' names (GASB credit risk category #2), \$272.5 million was uninsured and uncollateralized (GASB credit risk category #3), and \$4.4 million was held in money market funds which are not categorized.

#### **Investments**

The investment authority for most discretely presented component units is typically found in their enabling statutes and/or their bond resolutions where applicable. Those component units which are financing authorities generally may invest in government or government backed securities and deposits. The Michigan Education Trust's investments are subject to an investment agreement with the State Treasurer which allows the Treasurer, acting as agent, to make diverse investments including stocks, bonds, notes, and other investments. Investment policies for the State universities are typically set forth by their governing boards and include a broad range of investment types.

#### **Restricted Assets**

Restricted investments on the government-wide Statement of Net Assets, totaling \$1,102.0 million, represent amounts that are pledged toward the payment of outstanding bonds and notes.

**Michigan**  
**Notes to the Financial Statements**

The following table shows the carrying amounts and fair values of investments of the discretely presented component units, including

deposits classified as investments on the balance sheet, by investment type and in total (in millions):

	GASB Category				Total Carrying Value	Fair Value
	#1	#2	#3	Not Categorized		
Deposits(1):						
Time deposits	\$ 2.8	\$ -	\$ 31.0	\$ (1.9)	\$ 31.8	\$ 31.8
Government money market accounts	-	-	5.2	150.5	155.7	155.7
Investments:						
Commercial paper	183.7	57.4	5.2	7.6	253.9	253.9
Short-term notes	-	-	43.5	31.9	75.4	75.4
Repurchase agreements	37.1	204.7	-	-	241.8	241.8
Government securities	1,032.9	200.8	43.9	14.1	1,291.8	1,291.8
Insured mortgage backed securities	172.9	1.5	10.3	-	184.6	184.6
Government backed securities	-	.9	208.0	-	209.0	209.0
Investment agreements	-	-	-	94.4	94.4	94.4
Corporate bonds and notes	340.5	3.0	48.9	-	392.4	391.4
Equities	13.8	28.3	21.9	63.9	127.9	122.4
Real estate	-	.7	-	.6	1.3	1.3
Venture capital and leveraged buyouts	-	-	-	14.2	14.2	14.2
Certificates of indebtedness	-	4.3	-	-	4.3	4.3
Government money market funds	-	-	-	10.9	10.9	10.9
Mutual funds	-	42.2	-	453.7	495.9	479.0
Guaranteed investment contracts	-	-	-	1,138.2	1,138.2	1,138.2
Pooled investment funds	-	-	-	286.0	286.0	286.0
Other investments	-	1.4	10.9	20.2	32.4	49.0
Total Investments	<u>\$ 1,783.7</u>	<u>\$ 545.2</u>	<u>\$ 428.8</u>	<u>\$ 2,284.2</u>	5,041.8	<u>\$ 5,035.1</u>
Less Investments Reported as						
"Cash" on the Statement of Net Assets					(526.8)	
Total Investments					<u>\$ 4,515.0</u>	
<u>As Reported on the Statement of Net Assets</u>						
Current investments					\$ 1,027.3	
Noncurrent restricted investments					380.4	
Noncurrent investments					<u>3,107.4</u>	
Total Investments					<u>\$ 4,515.0</u>	

(1) The deposits classified as investments were reflected in the accounts of the banks in amounts equal to their carrying value and are categorized using the deposit risk category definitions.

## NOTE 9 – CAPITAL ASSETS

### A. Primary Government

#### Summary of Significant Accounting Policies

##### Methods used to value capital assets

Capital assets, which include property, plant, equipment, and infrastructure items (e.g. roads, bridges, ramps, and similar items), are reported in the applicable governmental or business-type activity columns of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

##### Capitalization policies

All land and non-depreciable land improvements are capitalized, regardless of cost. Equipment is capitalized when the cost of individual items exceed \$5 thousand, and all other capital assets are capitalized when the cost of individual items or projects exceed \$100 thousand.

The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

##### Items not capitalized and depreciated

The State possesses certain capital assets that have not been capitalized and depreciated, because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These assets include works of art and historical treasures such as statues, monuments, historical documents, paintings, forts and lighthouses, rare library books, miscellaneous capitol-related artifacts and furnishings, and the like.

##### Depreciation and useful lives

Applicable capital assets are depreciated using the straight-line method, with a half-year's depreciation charged in the year of acquisition and in the year of disposal. Agencies assigned useful lives that were most suitable for the particular assets. Estimated useful lives generally were assigned as follows:

Asset	Years
Equipment	2-25
Buildings	5-50
Infrastructure	15-40
Land Improvements	5-40

##### Modified approach for infrastructure

The State has elected to use the "modified approach" to account for certain infrastructure assets, as provided in GASB Statement No. 34. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the State to: 1) commit to maintaining and preserving affected assets at or above a condition level established by the State, 2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels.

Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

**Michigan**  
**Notes to the Financial Statements**

Capital asset activities for the fiscal year ended September 30, 2004 were as follows (in millions):

Governmental Activities	Beginning Balance	Additions	Deletions	Adjustments and Reclass- ifications	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 3,103.1	\$ 10.2	\$ (.8)	\$ 4.6	\$ 3,117.0
Land improvements	5.2	.5	-	11.5	17.2
Construction in progress	1,388.0	312.9	(283.6)	(102.3)	1,315.0
Infrastructure	11,563.7	288.7	(153.0)	-	11,699.4
Mineral rights	18.9	.9	-	-	20.0
Total capital assets, not being depreciated	16,078.9	613.1	(437.4)	(86.2)	16,168.4
Capital assets, being depreciated:					
Land improvements	108.8	.2	(.4)	2.4	111.0
Equipment and vehicles	676.6	53.4	(35.0)	.5	695.5
Buildings	3,138.3	93.9	(59.4)	(10.0)	3,162.8
Infrastructure	604.2	12.8	(1.1)	8.5	624.5
Total capital assets, being depreciated	4,527.9	160.4	(96.0)	1.5	4,593.8
Less accumulated depreciation for:					
Land improvements	(38.3)	(3.3)	-	(.1)	(41.7)
Equipment and vehicles	(512.7)	(70.4)	28.0	4.1	(551.1)
Buildings	(1,050.1)	(89.3)	23.8	.3	(1,115.4)
Infrastructure	(336.6)	(23.0)	1.1	(.7)	(359.2)
Total accumulated depreciation	(1,937.7)	(186.1)	52.9	3.6	(2,067.3)
Total capital assets, being depreciated, net	2,590.2	(26.0)	(43.0)	5.0	2,526.5
Governmental activity capital assets, net	<u>\$ 18,669.0</u>	<u>\$ 587.4</u>	<u>\$ (480.5)</u>	<u>\$ (81.1)</u>	<u>\$ 18,694.8</u>
Business-type Activities	Beginning Balance	Additions	Deletions	Adjustments and Reclas- sifications	Ending Balance
Capital assets, being depreciated:					
Buildings	\$ -	\$ -	\$ -	\$ -	\$ -
Equipment	4.8	-	-	-	4.8
Total capital assets, being depreciated	4.8	-	-	-	4.8
Less accumulated depreciation for:					
Buildings	-	-	-	-	-
Equipment	(4.1)	(.2)	-	-	(4.3)
Total accumulated depreciation	(4.1)	(.2)	-	-	(4.3)
Total capital assets, being depreciated, net	.7	(.1)	-	-	.6
Business-type activity capital assets, net	<u>\$ .7</u>	<u>\$ (.1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ .6</u>

Beginning balances for Business-type activities were restated due to the addition of a new fund in the fiscal year ended September 30, 2004: The Attorney Discipline System. See Note 4 for additional discussion on this restatement.

**Michigan**  
**Notes to the Financial Statements**

Depreciation expense was charged to functions of the primary government as follows:

	<u>Amount</u>
Governmental Activities:	
General Government	\$ 24.5
Education	.3
Family Independence Services	8.9
Public Safety and Corrections	48.5
Conservation, Environment, Recreation, and Agriculture	9.3
Labor, Commerce, and Regulatory	2.4
Health Services	6.5
Transportation	33.0
Depreciation on capital assets held by the State's internal service funds is charged to the various functions based on their use of the assets.	<u>49.0</u>
 Total Depreciation Expense – Governmental Activities	 <u><u>\$ 182.4</u></u>
Business-type Activities:	
Enterprise	<u>.2</u>
 Total Depreciation Expense – Business-type Activities	 <u><u>\$ .2</u></u>

**B. Discretely Presented Component Units**

The following table summarizes net capital assets reported by the discretely presented component units (in millions):

	<u>Amount</u>
State Universities:	
Land and other non-depreciable assets	\$ 94.9
Buildings, equipment, and other depreciable assets	3,947.6
Infrastructure	62.2
Construction in progress	<u>174.6</u>
Total	4,279.2
 Less accumulated depreciation	 <u>(1,484.3)</u>
 Capital Assets, net – State Universities	 2,794.8
 Capital Assets, net – Authorities	 <u>144.4</u>
 Capital Assets, Total – Discretely Presented Component Units	 <u><u>\$ 2,939.2</u></u>

## NOTE 10 – PENSION BENEFITS AND OTHER POSTEMPLOYMENT BENEFITS

### A. Defined Benefit Pension Plans

The State of Michigan administers the following defined benefit pension plans:

Legislative Retirement System (LRS) - single employer  
State Police Retirement System (SPRS) - single employer  
State Employees' Retirement System (SERS) - single employer  
Public School Employees' Retirement System (PSERS) - cost sharing multi-employer  
Judges' Retirement System (JRS) - cost sharing multi-employer  
Military Retirement Plan (MRP) - single employer

Each plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to plan members. Each plan, except MRP, is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports, except LRS, may be obtained by writing to the Department of Management and Budget, Office of Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling the Customer Information Center at (517) 322-5103 or 1-800-381-5111. The LRS report may be obtained by writing to the Michigan Legislative Retirement System, House Office Building, Suite S0927, P.O. Box 30014, Lansing, MI 48909 or by calling (517) 373-0575.

As mandated by legislation, all new State of Michigan employees hired on or after March 31, 1997, are members of the defined contribution retirement plan as opposed to the LRS, SERS and JRS defined benefit plans. Employees hired before that date were given the option of remaining in the defined benefit plan or transferring to the defined contribution plan. The decision is irrevocable and transfers were completed by September 30, 1998. This was a one-time opportunity. With the passage of the legislation permitting the transfer, the LRS, SERS and JRS defined benefit plans became closed systems.

<b>Plan Membership Data</b>	<b>LRS</b>	<b>SPRS</b>	<b>SERS</b>	<b>PSERS</b>	<b>JRS</b>	<b>MRP</b>
Current active:						
Vested	23	901	30,467	117,667	285	1,391
Nonvested	1	977	5,042	203,596	40	10,057
Retirees & beneficiaries receiving benefits	268	2,697	45,619	145,588	549	2,513
Terminated members with vested deferred benefits	71	16	7,202	14,429	11	1,192

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSETS MATTERS

#### Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

#### Methods Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

#### Significant Investments

No investment of any of the pension plans comprises 5% or more of the net assets available for benefits. There are no significant investments made in securities issued by the State, nor are there any loans made from the pension plans to the State. Additional disclosures concerning investments are provided in Note 8 and, concerning State Treasurer's Common Cash, in Note 5.

### FUNDING POLICY

The Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for each plan. Actual total contributions for pensions met or exceeded the contributions required by state law.

The Public School Employees' Retirement System (PSERS) is a cost-sharing, multiple-employer, State-wide defined benefit retirement system. Statute requires a reconciliation of required contributions and actual contributions in the PSERS. Public Act 158 of 1992 provides that any overage or shortage must be paid in installments over five years.

The contributions for judges in the Judges' Retirement System are non-employer contributions to cost-sharing multiple-employer defined benefit pension systems.

The contributions to all other systems are employer contributions to single-employer defined benefit systems. However, the State does not make actuarially computed contributions to the Military Retirement Plan (MRP). MRP benefits, which are funded on the pay-as-you-go basis, are paid from the General Fund.

Effective in fiscal year 2000-2001, SPRS, SERS, and PSERS use the valuation for the previous fiscal year for their respective reports. This approach is consistent with Governmental Accounting Standards Board (GASB) Statement No. 25. Consistent with this approach the most recent actuarial valuation was performed as of September 30, 2003.

**Michigan**  
**Notes to the Financial Statements**

**ANNUAL PENSION COST AND OTHER RELATED INFORMATION**

\*Current year contribution rates, annual pension cost, and related information for the current year for the State's single

employer defined benefit plans are as follows (amounts in millions):

	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>MRP</u>
<b>Required contribution rates:</b>				
State	-	23.85%	14.12%	-**
Plan Members	***	-	-	-
<b>Annual Pension Cost and Net Pension Obligation:</b>				
Annual required contribution	\$ -	\$ 27.00	\$ 262.55	\$ 3.54
Interest on net pension asset	(.14)	1.13	10.59	.64
Adjustment to annual required contribution	.25	(.75)	(11.07)	(.67)
Annual pension cost	.11	27.38	262.07	3.51
Contributions made	-	24.79	103.87	2.70
Change in net pension asset/obligation	.11	2.59	158.20	.81
Net pension (asset) obligation at beginning of fiscal year	(1.97)	14.13	132.40	8.01
Net pension (asset) obligation at end of fiscal year	<u>\$ (1.86)</u>	<u>\$ 16.71</u>	<u>\$ 290.60</u>	<u>\$ 8.82</u>

**Significant Actuarial**

**Assumptions used include:**

Latest actuarial valuation date	9/30/04	9/30/03	9/30/03	9/30/03
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	Level percent of payroll open	Level percent of payroll closed	Level percent of payroll closed	Level dollar closed
Remaining amortization period	12 years	33 years	33 years	33 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	None, Unfunded plan
Actuarial assumption:				
Investment rate of return	7%	8%	8%	8%
Projected salary increases	4%	4.7 - 84%	4 - 16%	4%
Includes inflation at	4%	3.5%	3.5%	4%
Cost-of-living adjustments	4% annual compounded (not compounded for legislators who first became members after 1/1/95)	2% annual non-compounded with maximum annual increase \$500	3% annual non-compounded with maximum annual increase \$300	4% for special duty retirants

\*For MRP, information provided is based on most recent biennial actuarial valuation.

\*\*For MRP, there is no underlying payroll of participants. Except for five special duty members, retirants receive \$600 in annual pension benefits. Accordingly, the annual required contribution from the State is determined as a dollar amount, not as a percentage of payroll.

\*\*\*For participants prior to January 1, 1995, the required contribution rate is 9.0%. For participants after January 1, 1995, the required contribution rate is 7.0%. All contributions are made to the Health Insurance Fund, as described in Section C.

**Michigan**  
**Notes to the Financial Statements**

Contribution rates for the current year for the State's cost-sharing multiple-employer defined benefit plans are as follows:

	<u>PSERS</u>	<u>JRS</u>
<b>Required contribution rates:</b>		
State	N/A	**
Plan Members	3.9*	5.94
Number of participating employers	719	173

N/A - Not available

\*For those members who elect to participate in the "Member Investment Plan," the rate is 3.9%. Members hired after December 31, 1989, are required to participate in the "Member Investment Plan," and their contribution rate varies from 3.0 to 4.3% as salary increases.

\*\*The State is required to contribute annually the greater of 3.5% of the aggregate annual compensation of State paid based salaries or required amount. However, the plan in the current year is fully funded; therefore, no contribution is required.

### THREE YEAR HISTORICAL TREND INFORMATION

The following table provides a schedule of funding progress for the State's defined benefit plans (amounts in millions):

	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded (Overfunded) AAL	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
<b>LRS</b>							
	9/30/04	\$ 161.9	\$ 151.9	\$ (10.0)	106.6%	\$ 2.0	(494.4)%
	9/30/03	165.0	147.4	(17.5)	111.9	2.0	(875.0)
	9/30/02	167.2	143.9	(23.3)	116.2	4.3	(541.9)
<b>SPRS**</b>							
	9/30/03	1,139.1	1,186.4	47.3	96.0	113.2	41.8
	9/30/02	1,141.3	1,135.7	(5.7)	100.5	124.4	(4.6)
	9/30/01	1,148.6	1,073.6	(75.0)	107.0	118.8	(63.1)
<b>SERS**</b>							
	9/30/03	10,440.6	11,761.1	1,320.5	88.8	1,859.6	71.0
	9/30/02	10,616.3	10,752.7	136.4	98.7	2,133.5	6.4
	9/30/01	10,632.7	9,878.2	(754.5)	107.6	2,230.6	(33.8)
<b>PSERS**</b>							
	9/30/03	38,726.0	44,769.0	6,043.0	86.5	10,044.0	60.2
	9/30/02	38,382.0	41,957.0	3,575.0	91.5	9,707.0	36.8
	9/30/01	38,399.0	39,774.0	1,375.0	96.5	9,264.0	14.8
<b>JRS</b>							
	9/30/04	286.9	236.4	(50.4)	121.3	37.5	(134.6)
	9/30/03	292.3	235.2	(57.0)	124.2	38.9	(146.6)
	9/30/02	291.7	229.2	(62.5)	127.3	42.4	(147.3)
<b>MRP*</b>							
	9/30/03	-	40.4	40.4	-	.6	7,313.0
	9/30/01	-	38.0	38.0	-	.5	8,049.6
	9/30/99	-	33.5	33.5	-	.5	6,771.4

\*Actuarial valuation performed biennially.

\*\*The most recent actuarial valuation was performed as of September 30, 2003.

**Michigan**  
**Notes to the Financial Statements**

The following table provides a schedule of annual pension cost and net pension obligation for the State's single employer defined benefit plans (amounts in millions):

	Year	Annual Cost (APC)	Percentage Contributed	Net Pension Obligation (Asset)
<b>LRS</b>				
	2001-02	.1	-	(2.1)
	2002-03	.1	-	(2.0)
	2003-04	.1	-	(1.9)
<b>SPRS</b>				
	2001-02	22.4	100.2	13.0
	2002-03	27.1	95.9	14.1
	2003-04	27.4	90.5	16.7
<b>SERS</b>				
	2001-02	111.8	-	10.1
	2002-03	184.2	33.6	132.4
	2003-04	262.1	39.6	290.6
<b>MRP</b>				
	2001-02	3.3	73.1	7.4
	2002-03	3.3	80.1	8.0
	2003-04	3.5	76.9	8.8

The following table provides a schedule of annual required contributions for the State's cost-sharing multiple-employer defined benefit plans (amounts in millions):

	Fiscal Year	Annual Required Contribution (ARC)	Percentage of ARC Contributed
<b>PSERS</b>			
	2001-02	669.0	90.3
	2002-03	812.9	85.9
	2003-04	978.0	71.3
<b>JRS</b>			
	2001-02	-	-
	2002-03	-	-
	2003-04	-	-

**REQUIRED SUPPLEMENTARY INFORMATION**

GASB Statement No. 25 requires the disclosure of certain six-year historical trend information. This information, except for MRP, is available from the separately issued financial reports of the retirement systems. For MRP, this information is presented below.

Trend information is intended to help users assess the funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

**Schedule of funding progress for MRP**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/99	-	33.5	33.5	-	.5	6,771.4
9/30/01	-	38.0	38.0	-	.5	8,049.6
9/30/03	-	40.4	40.4	-	.6	7,313.0

Actuarial valuation performed biennially; plans with biennial valuations need not present duplicate information for the intervening years.

**Schedule of Employer Contributions for MRP:**

Year Ended September 30	Annual Required Contribution	Percentage Contributed
2004	3.5	76.3
2003	3.3	79.4
2002	3.0	80.6
2001	3.0	76.1
2000	3.0	74.6
1999	2.5	84.7

Actuarial information for MRP is provided in the annual pension cost and other related information section.

**B. Defined Contribution Pension Plans**

**State Employees' Defined Contribution Retirement Plan**

The State Employees' Defined Contribution Retirement Plan (Plan) was established to provide benefits at retirement to employees of the State who were hired after March 31, 1997, and to those members of the State Employees' Retirement (defined benefit) System, Judges' Retirement System, and Legislative Retirement System who elected to transfer to this plan. The Plan is administered by the Department of Management and Budget. The State is required to contribute 4% of annual covered payroll. The State is also required to match employee contributions up to 3% of annual covered payroll. Plan provisions and contribution requirements are established and may be amended by the Legislature. Employer contributions to the plan for the year totaled \$56.0 million. Participant contributions to the plan were \$20.1 million. The reports may be obtained by writing to the Department of Management and Budget, Office of Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-5103.

The following investments represent 5% or more of net plan assets at September 30, 2004: SSGA Stable Value GIC Fund, \$49.2 million; Yield Enhanced Short-Term Fund, \$95.1 million; SSGA S&P 500 Index Fund, \$39.0 million; Dodge & Cox Stock Fund, \$44.9 million; Fidelity Magellan Fund, \$30.4 million; Smith Barney Large Cap Growth Fund, \$23.8 million.

Effective September 30, 2000, the assets and coverage of members of the Michigan Judges' Retirement System were transferred to the State Employees' Defined Contribution Retirement Plan.

**Component Units**

In addition to the Public School Employees' Retirement System (PSERS), the State university component units participate in the Teachers' Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). The TIAA-CREF is a defined contribution multiple-employer pension plan. The State university component units are required to contribute between 4% and 15% of annual covered payroll, as determined by each institution's employment agreements. The total contribution to the TIAA-CREF for all State university component units was \$69.8 million for the year ending June 30, 2004.

Additional plan information may be found in the separately issued financial reports of the State university component units.

Effective January 1, 2004, the State Bar of Michigan assumed responsibility for the retirement plans of State Bar employees who participated in the State of Michigan's Defined Contribution Retirement Plan (Plan). All monies held in the Plan on behalf of participating State Bar employees were subsequently transferred to the newly established State Bar 401(a) retirement plan and 457(b) retirement plans. The State Bar of Michigan is required to make minimum contributions and may establish other benefit provisions for their retirement plans. The State Bar of Michigan's contribution to the new plans was \$.8 million for the year ended September 30, 2004.

Additional information for the retirement plan can be obtained by contacting the State Bar at (517) 372-9030.

**C. Other Postemployment Benefits**

In addition to the pension benefits previously described in this Note, State statutes require that the State provide certain postemployment benefits (OPEB) to many of its retired employees. Health, dental, and vision benefits as well as life insurance coverage are provided to retirees of all pension-plans except MRP. These benefits are funded on a pay-as-you-go basis, except for LRS life insurance coverage, as explained below.

The LRS life insurance benefits are paid on an advance-funded basis. The actuarial cost method and actuarial assumptions are the same as for the pension plan, as discussed in Section A. At September 30, 2004, the actuarial accrued liability for life insurance premiums was \$7.7 million with net assets available for benefits of \$14.3 million. The expense for life insurance premiums was \$.1 million in fiscal year 2003-2004.

The net assets available for benefits relate to residual balances from funding provided in prior fiscal years. Public Act 93 of 2002 created a health advance funding subaccount within the State Employees' Retirement System as a means to begin prefunding, on an actuarial basis, health benefits for participants in the System. During fiscal year 2003-2004, there were no pension contributions transferred to the subaccount.

**Michigan**  
**Notes to the Financial Statements**

Following is a brief summary of the other postemployment benefits as of September 30, 2004:

	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>JRS</u>	<u>PSERS</u>	<u>TOTAL</u>
Participants eligible for benefits	343	2,697	45,619	549	145,588	194,796
Contribution rates for current employees (% of payroll)	None	None	None	1.5%	None	
Percentage of pre-Medicare premiums paid by participants	None	5%	5%	5%	10%*	
Expense for year (in millions)	\$4.0	\$29.2	\$354.6	\$6	\$615.4	\$1,003.8
Net assets available for benefits (in millions)	9.8	-	33.9	(.3)	484.0	527.4

\*The schools that employ the plan's members pay the employer share of health costs. PSERS retirees pay the same share of health care costs required from Social Security retirees for part B Medicare coverage until Medicare coverage begins at age 65.

Dental, vision, and hearing benefits are also extended to all retirees and their beneficiaries, for which retirees pay 10% of the health premiums.

## NOTE 11 – LEASES

### Accounting Policy

The State leases various assets under noncancelable leasing arrangements. Leases that constitute rental agreements are classified as operating leases; the resulting expenditures are recognized as incurred over the lease term. Leases that are comparable to purchases are classified as capital leases.

In the government-wide and proprietary fund statements, assets and liabilities resulting from capital leases are recorded at lease inception. The principal portion of lease payments reduces the liability; the interest portion is expensed.

For capital leases in governmental funds, other financing sources and expenditures are recorded at lease inception. Lease payments are recorded as debt service expenditures. (As explained in Note 3, for budgetary purposes, lease payments are only reported as expenditures when paid.)

Most leases have cancellation clauses with 1 to 6 month notice requirements in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered in the determination of whether a lease is cancelable, because the likelihood that they will be exercised is considered remote. Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that an option will be exercised. Some lease agreements include escalation clauses or other contingent rentals.

The State has entered into a few installment purchase agreements. Because the amounts involved are immaterial, and the accounting treatment is similar, such agreements are reported together with capital leases.

Leases that exist between the State and the State Building Authority (SBA, a blended component unit) are not recorded as leases in this report. In their separately issued financial statements, SBA records a lease receivable from the State. Although payables and receivables technically exist between these parties, when combined for government-wide reporting, they are eliminated. A long-term liability exists on the government-wide statements for the bonds issued by SBA to construct the assets associated with the leases. Future payments to SBA are, therefore, not included in the schedules of lease commitments below. Note 12 provides information on the amount of the Authority's bonds outstanding and a schedule of debt service requirements.

### A. Primary Government – Governmental Activities

Rental expenditures incurred under operating leases totaled \$81.1 million during the fiscal year. Payments for capital lease principal, interest, and executory costs totaled \$27.6 million, \$30.2 million, and \$17.7 million, respectively.

A summary of the operating and noncancelable capital lease commitments to maturity follows (in millions).

Capital Leases					
Year Ended September 30	Operating Leases	Principal	Interest	Executory Costs	Total
2005	\$ 43.9	\$ 32.6	\$ 28.6	\$ 17.1	\$ 78.3
2006	22.7	28.0	35.4	26.8	90.3
2007	15.7	24.5	33.8	25.7	84.1
2008	10.8	21.6	31.6	25.0	78.3
2009	7.4	19.5	29.5	23.3	72.3
2010-2014	15.5	76.1	121.9	97.6	295.6
2015-2019	7.4	74.3	87.9	82.5	244.7
2020-2024	2.8	66.3	54.8	68.9	190.0
Thereafter	-	80.1	26.1	80.6	186.8
Total	<u>\$ 126.0</u>	<u>\$ 423.0</u>	<u>\$ 449.8</u>	<u>\$ 447.5</u>	<u>\$ 1,320.2</u>

**Michigan**  
**Notes to the Financial Statements**

The above capital leases relate to governmental activities which include the General Fund, special revenue funds, and the internal service funds. A liability of \$423.0 million has been recorded in the government-wide statements for the capital lease principal. The historical cost of assets acquired under capital leases and included in capital assets on the government-wide statements at September 30 follows (in millions):

Land	\$ 70.0
Buildings	439.2
Equipment	76.7
Total	585.9
Accumulated Depreciation	(194.4)
Net Land, Buildings, and Equipment	<u>\$ 391.4</u>

**B. Primary Government – Business-Type Activities**

Rental expense incurred under operating leases totaled \$5 million during the fiscal year. There were no capital lease obligations.

A summary of operating lease commitments to maturity follows (in millions):

Year Ended September 30	Operating Leases
2005	\$ .4
2006	.4
2007	.4
2008	.2
2009	.1
	<u>\$ 1.4</u>

**C. Discretely Presented Component Units**

Operating lease commitments for universities and authorities totaled \$12.7 million. Total capital lease obligations were \$24.8 million, \$13.8 million, and \$0 for principal, interest, and executory costs, respectively.

**NOTE 12 – BONDS AND NOTES PAYABLE – PRIMARY GOVERNMENT**

**A. General Information**

**General Obligation Bonds and Notes**

Article 9, Section 15, of the State Constitution authorizes general obligation long-term borrowing, subject to approval by the Legislature and a majority of voters at a general election. In addition, debt may be incurred without voter approval for the purpose of providing loans to school districts. General obligation notes to provide temporary financing for such loans are recorded as liabilities in the School Bond Loan Fund, a special revenue fund. General Fund appropriations are made to finance debt principal and interest requirements for all general obligation issues. General obligation bonds are backed by the full faith and credit of the State.

The State Constitution provides that the Legislature may also authorize the issuance of general obligation short-term notes, the principal amount of which may not exceed 15% of undedicated revenues received in the preceding year. The State Constitution also provides that such notes must be repaid within the fiscal year of the borrowing. In fiscal year 2003-2004, the State issued general obligation notes to meet cash flow requirements of the General Fund.

Short-term debt activity for the fiscal year ended September 30, 2004, was as follows (in billions):

	Beginning Balance	Draws	Repayments	Ending Balance
General Obligation Notes	\$ -	\$ 1.3	\$ 1.3	\$ -

**Revenue Dedicated Bonds and Notes**

Long-term bonds have been issued periodically for specific purposes, with the stipulation that financing of debt requirements is to come strictly from designated revenue sources. The transportation related debt is payable solely out of funds restricted for transportation purposes by Article 9, Section 9, of the State Constitution. The State's general credit does not support such issues.

In previous years, the Department of Transportation issued grant anticipation notes. The notes have variable rates that may bear interest at a daily interest rate, a weekly rate, note interest term rate, long-term interest rate, or an ARS interest rate.

The notes are issued in accordance with the authorization provided in P.A. 51 of 1951, as amended. The proceeds of the sale of the notes, together with investment earnings on the proceeds and other available monies, will be used to pay a portion of the costs to complete the Build Michigan II highway program, to pay capital interest on the notes, and to pay note issuance costs.

The principal and interest on the notes are payable solely from and are secured by an irrevocable pledge of the State share of all federal grants received each year under the Federal-Aid Highway Program. Payment of the principal and interest on the notes from the State share shall be subject to an appropriation each year by the Legislature in an amount sufficient to make the payments. As of September 30, 2004, there were no principal payments made on the notes. The amount outstanding at September 30, 2004, \$600.0 million, is not disclosed in the table below.

The Michigan Underground Storage Tank Financial Assurance Finance Authority issued revenue bonds to provide financing for the activities of the Michigan Underground Storage Tank Financial Assurance Fund (MUSTFA). The bonds and notes are a limited obligation of the Authority payable solely from dedicated revenues and do not represent a general obligation of the finance authority or the State.

Revenue bonds have been issued by the State Building Authority (SBA) to acquire and/or construct various facilities for use by the State or institutions of higher education. Revenue bonds have also been issued to finance equipment capital lease refinancings and acquisitions. In addition, the SBA issues commercial paper notes to fund capital projects prior to bonding. Short-term debt activity for the fiscal year ended September 30, 2004, follows (in millions):

	Beginning Balance	Draws	Repayments	Ending Balance
Commercial Paper Notes	\$ 338.5	\$ 2,302.5	\$ 2,191.8	\$ 449.2

Note 13 provides disclosures regarding the bonds and notes payable of the discretely presented component units.

**Michigan**  
**Notes to the Financial Statements**

**Bonds Issued and Outstanding**

General obligation and revenue dedicated bonds issued and outstanding (excluding defeased bonds) at September 30 (in millions) are as follows:

General obligation and revenue dedicated bonds issued and outstanding (excluding defeased bonds) at September 30 (in millions) are as follows:			Fiscal Year Maturities		Average Interest Rate Percentage
	Amounts Issued	Outstanding 9/30/2004	First Year	Last Year	
<b>General Obligation Bonded Debt</b>					
General Obligation Refunding Debt:					
Series 2001 (Refunding)	\$ 183.3	\$ 183.0	2002	2016	4.76
Series 2002 (Refunding)	300.7	300.4	2004	2017	4.40
Recreation and Environmental Protection:					
Series 1989 (1)	75.0	21.3	1991	2012	6.92
Series 1992 (1)	246.3	86.4	1994	2013	6.15
College Savings Bonds - Series 1992 Mini-bonds (1)	.5	1.0	2012	2012	6.50
Series 1992 A (1)(2)	13.9	7.3	1994	2012	6.17
Series 1993 (1)(2)	16.7	10.1	1995	2013	5.00
Series 1995 (1)	234.3	83.9	1997	2020	5.28
Series 1998 (1)	90.0	19.9	1999	2009	4.80
Series 1999 A (3)	81.8	22.4	2004	2010	5.57
Series 2000 (1)	60.0	16.9	2002	2011	5.22
Series 2001 (3)	56.8	54.9	2004	2020	4.82
Series 2003 (5)	10.0	10.0	2053	2053	0.00
Series 2003 A (1)(3)	200.0	200.0	2007	2021	5.00
Series 2004 A (3)(4)	39.4	39.4	2010	2025	variable
Series 2004 B (3)(4)	15.1	15.1	2006	2010	variable
School Loan Bonds:					
Series 1995	180.0	24.9	1997	2007	5.47
Series 1998	160.0	65.7	2001	2012	4.86
Series 2001 C (4)	45.9	45.9	2019	2021	variable
Series 2002 A (4)	50.6	31.0	2005	2019	variable
Series 2002 B (4)	47.3	46.5	2018	2021	variable
Series 2003 B (4)	3.3	3.3	2008	2010	variable
Series 2004 A (4)	203.2	203.2	2020	2024	variable
Series 2004 B (4)	35.1	35.1	2020	2024	variable
Total General Obligation Bonded Debt	2,349.0	1,527.5			
<b>Revenue Dedicated Bonded Debt</b>					
<u>MUSTFA Related:</u>					
Tax Dedicated Bonds:					
1996 - Revenue Bonds - Series I	216.6	104.8	1997	2010	5.67
<u>State Park Related:</u>					
2002 - Gross revenue Bonds	15.5	15.0	2004	2023	3.58
Total Revenue Dedicated Bonded Debt - MUSTFA and State Park Related	232.1	119.8			
<u>Transportation Related:</u>					
Tax Dedicated Bonds:					
Michigan Comprehensive Transportation:					
Series 1996 (Series A Refunding)	22.7	20.2	1998	2014	5.42
Series 1998 (Series A Refunding)	38.6	38.6	2005	2011	4.66
Series 2001 (Series A Refunding)	27.8	27.8	2008	2022	5.01
Series 2002 (Series A Refunding)	89.6	67.9	2003	2011	5.06
Series 2002 (Series B)	82.3	79.6	2004	2022	5.13
Series 2003	35.0	33.5	2004	2023	3.61
State Trunkline Fund Bonds:					
Series 1989 (Series A)	135.8	24.6	1994	2009	6.97
Series 1992 (Series A Refunding)	253.6	63.7	2000	2013	5.64
Series 1992 (Series B Refunding)	99.6	9.8	2000	2013	5.68
Series 1994 (Series A Refunding)	150.0	3.3	1996	2006	5.50
Series 1996 (Series A)	54.5	3.4	1998	2008	5.71
Series 1998 (Series A)	377.9	377.9	2006	2027	5.09
Series 2001 (Series A)	308.2	197.8	2003	2031	5.27
Series 2002 (Refunding)	97.9	86.0	2004	2022	4.71
Series 2004 (Refunding)	103.5	103.5	2006	2022	4.13
Series 2004	185.7	185.7	2008	2019	4.36
Total Revenue Dedicated Bonded Debt - Transportation Related	2,062.7	1,323.3			

**Michigan**  
**Notes to the Financial Statements**

	Amounts Issued	Outstanding 9/30/2004	Fiscal Year Maturities		Average Interest Rate Percentage
			First Year	Last Year	
<u>State Building Authority:</u>					
1998 Series I Bonds (Refunding)	330.4	284.1	1999	2021	4.75
1999 Series I Bonds	85.7	66.5	1999	2016	4.54
2000 Series I Bonds	147.9	134.3	2000	2022	5.24
2001 Series I Bonds	121.7	108.6	2002	2019	5.28
2001 Series I Bonds (Refunding)	419.7	398.5	2003	2026	5.31
2001 Series II Bonds	170.1	157.3	2003	2020	5.28
2002 Series III Refunding	215.2	210.7	2004	2027	4.60
2003 Series I Refunding	659.4	636.7	2004	2018	3.64
2003 Series II Refunding	392.6	392.6	2005	2030	4.42
2004 Series I	155.4	155.4	2005	2020	4.08
Total State Building Authority Bonded Debt	<u>2,698.0</u>	<u>2,544.6</u>			
Total Revenue Dedicated Bonded Debt	<u>4,992.7</u>	<u>3,987.7</u>			
Total General Obligation and Revenue Dedicated Bonded Debt	<u>\$ 7,341.8</u>	<u>\$ 5,515.2</u>			

(1) Public Acts 326 and 327 of 1988 and P.A. 451 of 1994 authorized the issuance of bonds totaling \$800.0 million. As of September 30, 2004, \$774.6 million of such bonds had been issued, leaving remaining authorization of \$25.4 million. Sum of amounts issued in table differs by amount of bonds refunded or redeemed.

(2) The \$13.9 million Series 1992A and the \$16.7 million Series 1993, Recreation and Environmental Protection General Obligation Bonds, were used to provide a contribution of capital to the Michigan Municipal Bond Authority (a discretely presented component unit). An outside trustee for the Authority is holding the bonds as an investment of the Authority; no immediate cash proceeds were provided. The trustee receives the debt service payments on the bonds, which are negotiable instruments held to subsidize water pollution control financing provided by the Authority.

(3) Public Act 284 of 1998 authorized the issuance of bonds totaling \$675.0 million. As of September 30, 2004, \$331.2 million of such bonds had been issued, leaving remaining authorization of \$343.8 million. Sum of amounts issued in table differs by amount of bonds refunded or redeemed.

(4) The Multi-Modal Series, Environmental and School Loan Bond Series, currently bear interest at a commercial paper rate and are remarketed at each maturity. For the future debt service requirements, interest was estimated at the interest rate in effect at September 30, 2004.

(5) In November 2002, voters approved a ballot proposal in which the State would issue \$1.0 billion in general obligations bonds to provide capital, which is then loaned to local units of government for water quality improvement projects. Rather than issuing the bonds at public or private sale and receiving cash, the State "issued" \$100.0 million in bonds to a discretely presented component unit, the Michigan Municipal Bond Authority (MMBA). Although no cash traded hands, MMBA (the registered owner of the bonds) is holding the bond document as collateral and issuing their own revenue bonds to generate the capital. This transaction allows the State's General Fund to defer principal and interest costs until future years when the bond is repurchased/redeemed. MMBA will fund the principal and interest costs of the revenue bonds until such time that they request the State to honor the general obligation bond document.

On December 18, 2003, the State issued \$100.0 million in bonds (\$10.0 million relating to Strategic Water Quality and \$90.0 million relating to the previously existing State Water Quality Revolving Fund). The \$10.0 million bond relating to Strategic Water Quality includes a repurchase provision that requires the State to repurchase all or any portion of this bond upon 10 days prior written notice from the registered owner, MMBA. The State anticipates at this time that if the bond repurchase was acted on, the State would issue long-term debt to finance the repurchase. This bond is being used as collateral by MMBA for the Strategic Water Quality bonds being issued by MMBA to local governments. For these reasons, the State has recognized the \$10.0 million bond related to Strategic Water Quality as a liability in the entity-wide statements. The \$90.0 million "bond" document issued for the State Water Quality Revolving Fund does not contain the 10 day repurchase provision that the \$10.0 million bond does. Nor is the \$90.0 million "bond" document being used as collateral by MMBA. For these reasons, the State has not recognized a liability for the \$90.0 million "bond" document related to the existing State Water Quality Revolving Fund.

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**Capital Appreciation Bonds**

Capital appreciation and convertible capital appreciation bonds are recorded in the preceding table and Section B at their

accreted year-end book value. The table that follows summarizes capital appreciation bonds (in millions):

	Accreted Book Value	Ultimate Maturity Value	Fiscal Year Maturities	
			First Year	Last Year
<b>General Obligation Bonds:</b>				
Series 1989	\$28.5	34.3	1999	2012
Series 1992	16.7	22.1	1994	2012
College Savings Bonds - Series 1992 Mini-bonds	1.0	1.8	2012	2012
Series 1995	15.9	19.7	2001	2010
<b>Revenue Dedicated – Transportation Related:</b>				
State Trunkline – Series 1989 A	24.6	29.8	2004	2009
State Trunkline – Series 1992 A and B	73.5	97.7	2006	2013

**Refundings and Defeasances**

The State has defeased certain bonds through advance refundings by placing the proceeds of new bonds (i.e., the “refunding” bonds in the table of bonds issued and outstanding) in irrevocable trust to provide for all future debt service on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not recorded as assets or liabilities in

these statements and are not included in the other debt tables in this note.

The State has defeased certain bonds through current refundings in which the proceeds of the refunding debt are applied immediately to redeem the debt to be refunded.

The following table summarizes the defeased bonds outstanding at September 30 (in millions):

	Amounts Outstanding
<b>Recreation and Environmental Protection:</b>	
Series 1989	\$ 2.5
Series 1995	103.1
Series 1998	50.4
Series 1999 A	56.1
Series 2000 (partial)	37.4
Total	<u>\$ 249.4</u>
<b>School Loan Bonds:</b>	
Series 1995	\$ 103.3
Series 1998	69.1
Total	<u>\$ 172.4</u>
<b>State Trunkline Fund Bonds:</b>	
Series 1994 A (partial)	\$ 123.8
Series 1996 A (partial)	45.2
Series 2001 A (partial)	99.3
	<u>\$ 268.3</u>
<b>State Building Authority:</b>	
1989 Series I	\$ 10.8
1993 Series I	37.0
1994 Series I	18.2
1994 Series II	13.8
1996 Series I	51.8
1997 Series I	81.0
1997 Series II	264.0
1998 Series I	81.0
1997 Series A	10.9
2000 (MSP Phase II)	35.1
2001 (MSP Phase III)	49.2
2002 (MSP Phase IV)	32.7
Total	<u>\$ 685.6</u>

**General Obligation**

During the year, the State of Michigan issued, as a current refunding, \$238.3 million of School Loan Multi-Modal Bonds Series 2004 A & B maturing in years 2020 through 2024 with a variable interest rate. The maximum interest rate applicable to the Series 2004A bonds is 10% annually and the maximum interest rate applicable to the

Series 2004B bonds is 12% annually. From the proceeds, \$141.8 million was used to refund principal and interest on General Obligation bonds and School Loan Bonds, \$96.5 million was deposited into the School Bond Loan Fund to make loans to local school districts and to pay for costs of issuance of the bonds.

Also during the year, the State of Michigan issued, as a current refunding, \$51.0 million of School Loan Multi-Modal Bonds Series 2003 D & E maturing in years 2017 through 2021 with a variable interest rate. The maximum interest rate applicable to the Series 2003 D & E bonds is 12% annually. From the proceeds, \$4.7 million was used to refund principal and interest on General Obligation bonds and School Loan Bonds, \$24.0 million was deposited into the School Bond Loan Fund to make loans to local school districts, \$22.4 million was used to make regularly scheduled principal and interest payments and to pay for costs of issuance of the bonds. These bonds were issued and completely refunded in fiscal year 2004 with the proceeds of School Loan Multi-Modal Bonds Series 2004 A & B.

The variable rate refunded and new debt bear interest rates based upon various periodic market rates and are remarketed at each maturity.

#### **Revenue Dedicated**

In May of 2004, the State issued \$103.5 million of revenue dedicated State Trunk Line Fund Refunding Bonds Series 2004. The proceeds were used to refund various portions of previously issued bonds that carried higher interest rates.

The State advance refunded these bonds to reduce its total debt service payments over the next 18 years by \$5.4 million and to achieve an economic gain of \$3.9 million.

During the year, the State Building Authority issued \$303.5 million of fixed-rate revenue refunding bonds (as part of a total issuance of \$392.6 million, which provided \$89.1 million of financing for new projects), along with \$13.2 million of Authority cash and \$15.8 million of issuance premium, for a current refunding of \$332.5 of variable-rate revenue bonds. The refunding was undertaken to reduce future debt service payments and to lock-in favorable interest rates. The refunded variable-rate bonds had no stated annual debt service requirements, had a nominal final maturity date of October 15, 2037, and bore interest at a commercial paper rate. The refunded bonds, which serially mature through October 15, 2029, carry an average fixed interest rate of 4.415%.

Also during the year, the State Building Authority (SBA) issued \$112.8 million of revenue refunding bonds (as part of a total issuance of \$155.4 million). The proceeds were used to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust along with \$16.8 million of Authority cash for the purpose of generating resources for all future debt service payments of \$127.9 million of bonds.

The advance refunding was undertaken to reduce total debt service payments by \$2.8 million and resulted in an economic gain of \$1.3 million.

**Michigan**  
**Notes to the Financial Statements**

**Debt Service Requirements**

The following table summarizes debt service requirements for outstanding bonds (in millions):

Fiscal Years Ending	General Obligation			MUSTFA, State Park, and Transportation Related		State Building Authority		Total Principal And Interest
	Principal	Fixed Interest	*Estimated Interest	Principal	Fixed Interest	Principal	Interest	
2005	\$ 56.0	\$ 53.3	\$ 5.1	\$ 65.0	\$ 67.7	\$ 78.8	\$ 126.1	\$ 452.0
2006	61.9	50.7	5.1	68.4	65.1	108.4	122.5	482.1
2007	78.1	48.0	5.1	71.0	62.4	113.2	117.9	495.6
2008	82.5	44.8	5.0	85.9	59.5	118.5	112.2	508.4
2009	86.1	41.4	5.0	89.3	56.1	124.1	106.3	508.2
2010-2014	480.5	144.5	23.7	339.7	232.7	722.0	426.9	2,370.0
2015-2019	336.0	36.7	22.1	359.5	151.2	718.3	224.4	1,848.1
2020-2024	348.8	3.0	10.1	253.6	63.1	364.7	91.1	1,134.4
2025-2029	3.3	-	-	101.4	22.2	175.4	23.6	326.0
2030-2034	-	-	-	38.7	2.1	21.3	.5	62.6
2035-2039	-	-	-	-	-	-	-	-
Thereafter	10.0	-	-	-	-	-	-	10.0
<b>Total</b>	<b>\$1,543.2</b>	<b>\$ 422.4</b>	<b>\$ 81.2</b>	<b>\$1,472.5</b>	<b>\$ 782.1</b>	<b>\$2,544.6</b>	<b>\$1,351.5</b>	<b>\$ 8,197.5</b>

\*Interest for Multi-Modal Bonds future debt service requirements was estimated at the rate in effect at September 30, 2004.

Interest to maturity for the State Building Authority will be significantly smaller than the amount shown in the above table because many of the bonds will be called prior to the final scheduled maturity date. The retirement of these bonds varies from project to project, as each bond issue is related to specific projects and any excess borrowing and accrued investment earnings are restricted to projects and debt service on the related bonds. State Building Authority debt service fund unreserved

fund balances totaled \$193.5 million at year-end. Most of this represents investments related to completed projects that will be used for debt service on the projects' bonds.

Some of the bonds of the State Building Authority carry variable interest rates and interest on these has been projected using an average interest rate.

**B. Changes in Bonds and Notes Payable**

Changes in bonds and notes payable for the year ended September 30, 2004, are summarized as follows (in millions):

Governmental Activities	Beginning Balance Restated*	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
<b>Bonds Payable:</b>						
General obligation debt	\$ 1,413.4	\$ 357.2	\$ 243.1	\$ 1,527.5	\$ 56.0	\$ 1,471.5
Revenue bonds	1,312.8	295.2	164.9	1,443.1	65.0	1,378.1
State Building Authority	2,569.7	547.9	573.1	2,544.6	78.8	2,465.8
<b>Notes Payable:</b>						
Transportation related	600.0	-	-	600.0	-	600.0
<b>Deferred Loss on Refundings:</b>						
General obligation debt	(30.0)	-	2.3	(27.7)	-	(27.7)
Revenue dedicated debt	(5.5)	(8.3)	.6	(13.2)	-	(13.2)
State Building Authority	(56.3)	(6.0)	5.5	(56.9)	-	(56.9)
<b>Unamortized Premiums:</b>						
General obligation debt	53.0	-	4.1	48.9	-	48.9
Revenue dedicated debt	23.2	25.3	2.2	46.2	-	46.2
State Building Authority	107.3	30.7	7.9	130.1	-	130.1
<b>Total bonds and notes payable</b>	<b>\$ 5,987.6</b>	<b>\$ 1,242.0</b>	<b>\$ 958.4</b>	<b>\$ 6,242.7</b>	<b>\$ 199.8</b>	<b>\$ 6,043.0</b>

Plus commercial paper notes reported as  
"Current Liabilities: Bonds and notes payable"  
on the Statement of Net Assets

449.2	449.2	-
<b>\$ 6,691.9</b>	<b>\$ 648.9</b>	<b>\$ 6,043.0</b>

\*The beginning balance of long-term debt outstanding as presented above and deferred amounts on refunding were each reduced by \$37.0 million because of the reclassification of prior year debt refunding for the State Building Authority.

## NOTE 13 – BONDS AND NOTES PAYABLE – DISCRETELY PRESENTED COMPONENT UNITS

### A. Bonds and Notes Payable

#### Bonds Payable

Bonds payable of the discretely presented component units are legal obligations of the component units and are not general obligations of the State.

The State universities and the Michigan State Housing Development Authority utilize June 30 fiscal year-ends. The

remaining discretely presented component units have September 30 fiscal year-ends.

The following table summarizes debt service requirements of the discretely presented component units as reported in their separately issued financial statements, utilizing their respective fiscal year-end (in millions):

<u>Fiscal Years Ending In</u>	<u>Principal</u>	<u>Fixed Interest</u>	<u>Estimated Interest</u>	<u>Total</u>
2005	\$ 320.3	\$ 307.9	\$ 3.3	\$ 631.6
2006	222.2	297.9	3.2	523.4
2007	267.2	284.6	3.1	555.0
2008	287.6	273.5	3.0	564.1
2009	300.0	249.2	2.9	552.1
	<u>1,397.3</u>	<u>1,413.2</u>	<u>15.7</u>	<u>2,826.2</u>
2010-2014	1,469.5	1,041.9	12.3	2,523.7
2015-2019	1,153.5	716.7	8.6	1,878.8
2020-2024	1,100.8	408.9	6.6	1,516.3
2025-2029	612.8	230.0	4.3	847.0
2030-2034	609.5	125.3	.8	735.7
2035-2039	932.1	54.8	-	987.0
	<u>5,878.1</u>	<u>2,577.6</u>	<u>32.6</u>	<u>8,488.4</u>
Total	<u>7,275.5</u>	<u>\$ 3,990.8</u>	<u>\$ 48.3</u>	<u>\$ 11,314.6</u>
Deferred amount on refunding	(89.4)			
Unamortized discount	(.1)			
Unamortized premium	135.5			
Total principal	<u>\$ 7,321.5</u>			

Included in the table above is \$607.7 million of demand bonds comprised of the Michigan Higher Education Student Loan Authority, \$151.4 million, and the Michigan State Housing Development Authority, \$456.3 million. Defeased bonds outstanding of the Michigan Municipal Bond Authority, Michigan Higher Education Student Loan Authority, and Michigan State Housing Development Authority are not reflected in the table above.

Grand Valley State University entered into an interest rate exchange agreement for \$20.0 million of outstanding variable rate bonds. In accordance with the exchange agreements, the University pays a fixed rate of 3.3%.

#### Notes Payable

The Michigan Municipal Bond Authority has short-term notes outstanding of \$763.1 million as of September 30, 2004.

### B. Unrecorded Limited Obligation Debt

Certain State financing authorities have issued limited obligation revenue bonds which are not recorded as liabilities in these statements because the borrowings are, in substance, debts of other entities. The State has no obligation for this debt. Typically, these borrowings are repayable only from the repayment of loans, unloaned proceeds and related interest earnings, and any collateral which may be provided.

The Michigan Higher Education Facilities Authority (MHEFA) issues limited obligation bonds to finance loans to private nonprofit institutions of higher education for capital improvements. As of September 30, 2004, MHEFA had bonds outstanding of \$408.1 million. Of the above amount, \$24.0

million of bonds have been defeased in substance, leaving a remaining undefeased balance of \$384.0 million.

The Michigan Strategic Fund (MSF) issues industrial development revenue bonds which are not recorded as liabilities. The total amount issued for the period January 1, 1979 through September 30, 2004, was \$6.8 billion. MSF also issues taxable bonds which are not recorded as liabilities. The amount issued in fiscal year 2003-2004 was \$1.0 million. These borrowings are in substance, debts of other entities and financial transactions are handled by outside trustees.

The Michigan State Hospital Finance Authority (MSHFA) has issued \$5.4 billion of no commitment bonds as of September 30, 2004. Of the above amount, \$4.1 billion have been defeased in substance, leaving a remaining undefeased balance of \$1.3 billion. Economic gains and accounting gains and losses, resulting from in-substance defeasance inure to the benefit of the facility for which the bonds were issued, and accordingly are not reflected in the Authority's financial statements.

The Michigan State Housing Development Authority (MSHDA) has been authorized to issue up to \$800.0 million of limited obligation bonds to finance multi-family housing projects. At June 30, 2004, limited obligation bonds had been issued totaling \$615.2 million, of which fourteen issues totaling \$131.0 million had been retired.

The Michigan Public Educational Facilities Authority (MPEFA) issues limited obligation bonds to finance loans to qualified public educational facilities for capital improvements. As of September 30, 2004, MPEFA had bonds outstanding of \$2.6 million.

## C. Short-Term Debt Activity

Western Michigan University used its revolving line of credit to finance a new student information system. Activity on the line of

credit during Western Michigan University's fiscal year ended June 30, 2004, was as follows (in millions):

	Beginning Balance	Draws	Payments	Ending Balance
Line of Credit	\$ -	\$ 6.9	\$ -	\$ 6.9

## NOTE 14 – OTHER LONG-TERM OBLIGATIONS

### A. Primary Government

#### Other Long-Term Obligations

In general, expenditures and fund liabilities are not recorded in governmental funds for long-term obligations until claims, judgments, or amounts owed are "due and payable" at September 30. Expenses and liabilities for material claims and judgment losses are recorded in the government-wide and proprietary fund financial statements when the loss is considered probable.

#### Capital Leases

This liability is described in more detail in Note 11.

#### Compensated Absences

This liability is described in Note 1.

#### Workers' Compensation

The gross amount of workers' compensation liability, \$158.5 million at September 30, 2004, has been recorded at its discounted present value of \$106.5 million, using a discount rate of approximately 8%. The present value of the current portion of this liability is \$23.7 million. In fiscal year 2003-2004 State agencies paid reimbursement for actual workers' compensation claims and administrative fees totaling \$40.8 million.

#### Net Pension Obligation

This liability is described in Note 10.

#### Other Claims & Judgments

The governmental activity estimated liability for other claims and litigation losses, \$414.7 million at September 30, 2004, includes amounts for litigation, such as damages in tort cases and refund claims in cases involving State taxes, transportation claims,

natural resources and environmental quality claims, and other claims, in which it is considered probable that costs will be incurred. Also included is an estimated liability totaling \$.5 million for arbitrage payable to the federal government for interest earned on bond proceeds. Where a range of potential loss exists, the amount recorded is based upon the expected minimum amount that will be lost if the State does, indeed, lose. The allowance also includes projections for highway related negligence cases based upon historical loss ratios. The State continues to vigorously contest all of these claims and the State may incur no liability in the individual cases involved. Therefore, the allowance for litigation losses may be overstated (to the extent that losses do not occur) or understated (if the State losses exceed the projected minimums which have been recorded). The maximum potential loss on the allowance for estimated litigation losses is not considered reasonably measurable.

The liability recorded for other claims and judgments within business-type activities represents overpayments by employers to the Michigan Unemployment Compensation Fund totaling \$42.9 million.

#### Durant Settlement

The reported estimated liability for litigation losses includes the Donald Durant, et al v State of Michigan, et al consolidated cases, which totaled \$353.6 million at September 30, 2004. This amount will, over time, be paid to each "non-Durant" school district for its underfunded State mandated program costs if certain requirements are met. See Note 23 for additional disclosure regarding the Durant case and other contingencies.

**Michigan**  
**Notes to the Financial Statements**

**Changes in Other Long-Term Obligations**

Changes in long-term liabilities for the year ended September 30, 2004, are summarized as follows (in millions):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
<b>Governmental Activities</b>						
Other Long-term Obligations:						
Capital lease obligations	\$ 478.6	\$ 25.4	\$ 80.9	\$ 423.0	\$ 32.6	\$ 390.4
Compensated absences	403.1	320.5	229.3	494.4	50.1	444.3
Workers' compensation	105.5	24.5	23.5	106.5	23.7	82.8
Net pension obligations	154.5	161.6	-	316.1	-	316.1
Other claims & judgments	430.0	19.9	35.2	414.7	93.5	321.3
Durant settlement	375.0	10.3	31.7	353.6	31.7	321.9
<b>Total Governmental Activities</b>	<b>\$ 1,946.7</b>	<b>\$ 562.3</b>	<b>\$ 400.6</b>	<b>\$ 2,108.4</b>	<b>\$ 231.5</b>	<b>\$ 1,876.8</b>
<b>Business-type Activities</b>						
Other Long-term Obligations:						
Lottery prize awards*	\$ 596.7	\$ 43.2	\$ 109.8	\$ 530.0	\$ 99.8	\$ 430.2
Compensated absences	2.2	1.5	.9	2.8	.4	2.4
Other claims & judgments	44.8	-	1.8	42.9	-	42.9
<b>Total Business-type Activities</b>	<b>\$ 643.6</b>	<b>\$ 44.6</b>	<b>\$ 112.5</b>	<b>\$ 575.7</b>	<b>\$ 100.2</b>	<b>\$ 475.6</b>

\*The amounts due within one year are included with "Accounts payable and other liabilities" on the Statement of Net Assets.

The General Fund, special revenue, and internal service funds in which the leases are recorded will liquidate the capital lease obligations. The compensated absence and workers' compensation liabilities will be liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees. The net pension obligations will be liquidated by the State's governmental and internal service funds that contribute toward the pension funds, based on the statutorily required contribution rates. The School Aid Fund will liquidate the Durant settlement. Other claims and judgments attributable to governmental activities will generally be liquidated by the General Fund and transportation related special revenue funds.

## B. Discretely Presented Component Units

### Michigan Education Trust (MET)

MET offers contracts, which for actuarially determined amounts, provide future tuition at State institutions of higher education. Contract provisions also allow the benefits to be used at private or out-of-state institutions, with the amount provided being based upon rates charged by the State's public institutions of higher education. The tuition payments are made by MET as a separate legal entity and these contracts are not considered obligations of the State. The Legislature is not obligated to provide appropriations should losses occur. The statutes and contracts provide for refunds to the participants if MET becomes actuarially unsound. Liabilities have been recorded on the statement of net assets for the actuarial present value of future tuition benefit obligations.

The 1988, 1989, and 1990 enrollments are known as Plans B and C. Enrollments after November 1995 are known as Plan D.

The actuarial report on the status of MET Plans B and C, as of September 30, 2004, shows the actuarial present value of future tuition obligations to be \$600.2 million, as compared to the actuarially determined market value of assets available of \$640.9

million. The actuarial assumptions used include: a projected tuition increase rate of 7% for the years through 2010 and 7.3% for subsequent years; and a discount rate of 5%.

The actuarial report on the status of MET Plan D, as of September 30, 2004, shows the actuarial present value of future tuition obligations to be \$367.4 million, as compared to the actuarially determined market value of assets available of \$331.6 million. The actuarial assumptions used include: a projected tuition increase rate of 7% for the years through 2010 and 7.3% for subsequent years; and a discount rate of 7.25%.

During 2000 MET changed the balance sheet presentation of the tuition benefit obligation by increasing the liability to include the present value of future contract payments expected to be collected from installment contract purchasers. There was no effect on net income or retained earnings as a result of the reclassification.

On November 8, 1994, the U.S. Court of Appeals for the Sixth Circuit ruled that MET is an integral part of the State of Michigan and, thus, the investment income realized by MET is not currently subject to federal income tax. On August 20, 1996, the Small Business Job Protection Act of 1996 (the "1996 Tax Act") was signed into law which included a provision adding a new section to the Internal Revenue Code of 1986 defining "qualified state tuition programs." A qualified state tuition program is generally exempt from income tax, but is subject to unrelated business income tax. MET has no unrelated business income. Distributions made in excess of qualified higher education expenses (whether to the refund designee, beneficiary, or to a college on behalf of the beneficiary) are taxable income to the beneficiary or the refund designee. In May 1997, MET submitted a request for ruling to the IRS for verification that MET is in compliance with the 1996 Tax Act. On December 23, 1997, the IRS issued a favorable ruling which confirms that MET is in compliance with the Act.

## **NOTE 15 – INCOME TAX CREDITS AND REFUNDS**

### **A. Income Tax Credits**

The Michigan Income Tax Act provides for several types of tax credits. Some credits are accounted for as revenue reductions for financial reporting purposes while others are reported as expenditures. Revenue reductions are reported for those income tax credits that are limited by the amount of an individual's tax liability before considering such credits. To the extent these nonrefundable credits will generate future year payments, they are accrued as income tax refund liabilities together with estimated overwithholdings.

Expenditures are reported for those credits which can be received even if they exceed the individual's tax liability. For these refundable credits, the substance of the transaction is that the State is making a grant payment using the income tax system as a filing and payment mechanism. The amount of credit received is not a part of the determination of tax liability. The State's property tax is the primary credit that falls into this category. Expenditures for this credit are recognized in the year the tax returns are filed and recipients claim the credit.

The following table summarizes the various credits, reported as an expense/expenditure on the "Tax credits" line in the government-wide and fund financial statements (in millions).

Property tax credits:	
General homestead	\$ 368.8
Senior citizens	276.4
Farmland preservation	26.6
Other property tax credits	29.7
Subtotal - property tax credits	<u>701.5</u>
Adoption credit	1.2
Total tax expenditures	<u>\$ 702.7</u>

### **B. Income Tax Refunds Payable**

The \$717.5 million reported as a liability on the "Income tax refunds payable" line in the government-wide and fund financial statements includes: projected refund estimates for overwithholding and tax credits reported as revenue reductions, actual refunds made in October and November, and accruals for known income tax litigation losses.

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## **NOTE 16 – DEFERRED COMPENSATION PLANS**

The State offers its employees (excluding university employees) two deferred compensation plans to allow a portion of their salary to be deferred until future years. Executive Order 1999-7 transferred administrative oversight of the plans, labeled 457 and 401k after sections of the Internal Revenue Code, to the Department of Management and Budget. Day-to-day operations of the plans have been contracted to a third-party; however, the State Treasurer oversees investment options. The 457 plan and the 401k plan are combined for reporting purposes under the heading of "State Employees' Deferred Compensation Funds."

The State makes no contribution to the 457 plan. Generally, the State does not make matching contributions to the 401k plan; however, the State has occasionally made matching contributions to the 401k plan as part of certain employees' compensation packages.

To expand investment options, three investment tiers were developed and made available to participants on July 1, 1997. Participants invest their contributions and accumulated earnings by selecting mutual funds in one or more of the investment tiers. Employees may, at any time, transfer accumulated balances and future contributions among mutual funds in the investment tiers. Investment earnings, net of administrative charges, are credited to the participants proportionally, based upon their balances in the plan.

The 401k plan includes loan provisions. Loans to participants are recorded as assets. The 457 plan does not include loan provisions.

Net assets available for plan benefits for the 457 plan and the 401k plan at September 30, 2004, were \$1.8 and \$1.4 billion, respectively.

## NOTE 17 – INTERFUND RECEIVABLES AND PAYABLES

### A. Primary Government

The balances of current interfund receivables and payables as of September 30 were (in millions):

Due From	Due To							Total
	General Fund	Budget Stabilization Fund	School Aid Fund	Non-major Governmental Funds	Unemployment Compensation Funds	Internal Service Funds	Fiduciary Funds	
General Fund	\$ -	\$ 81.3	\$ -	\$ 814.4	\$ 1.7	\$ 16.2	\$ 12.5	\$ 926.0
School Aid Fund	1,466.5	-	-	-	-	-	-	1,466.5
Non-major Governmental Funds	64.2	-	-	146.8	.1	2.1	1.5	214.7
State Lottery Fund	-	-	9.9	-	-	.1	-	10.0
Unemployment Compensation Funds	19.8	-	-	-	3.2	-	-	22.9
Non Major Enterprise Funds	-	-	-	-	-	-	-	.1
Internal Service Funds	-	-	-	-	-	12.8	.6	13.4
Fiduciary Funds	1.3	-	-	-	-	-	-	1.3
Total	<u>\$1,551.8</u>	<u>\$ 81.3</u>	<u>\$ 9.9</u>	<u>\$ 961.1</u>	<u>\$ 5.0</u>	<u>\$ 31.2</u>	<u>\$ 14.8</u>	<u>\$2,655.0</u>

Interfund receivables and payables are recorded for 1) borrowings to eliminate negative balances in the Common Cash pool, as described in Note 5, 2) payroll liabilities for group insurance and retirement, and 3) tax accrual distributions for taxes collected in the following fiscal year.

Not included in the table above are the following interfund advances, which are not expected to be repaid within one year: \$6.8 million due from the Correctional Industries Revolving Fund (an internal service fund) to the General Fund for amounts loaned for capital construction and \$21.7 million due from the Blue Water Bridge Fund to the State Trunkline Fund (both reported as part of the State Trunkline Fund, a special revenue fund) for federal funds loaned for bridge construction.

### B. Discretely Presented Component Units

Receivables and related liabilities between the primary government and the discretely presented component units, do not agree because the Michigan State Housing Development Authority and the ten State universities have a June 30 fiscal year-end.

## NOTE 18 – INTERFUND COMMITMENTS

### Michigan State Waterways Fund

In fiscal year 2002-2003, P.A. 746 of 2002, required the transfer of \$7.8 million from the Michigan State Waterways Fund to the General Fund. The Act states that in the future the General Fund is to provide reimbursement. Interfund receivables and payables are not recorded for this commitment, because there is no repayment schedule and the repayment is considered long-term and budgetary in nature.

### Mackinac Bridge Authority

The Mackinac Bridge Authority, a discretely presented component unit, has over the years received \$75.3 million of subsidies, including \$12.3 million for operations and \$63.0 million for debt service. These subsidies were provided by the State Trunkline and Michigan Transportation funds, respectively, both of which are special revenue funds.

State statutes require that the Authority continue charging bridge tolls and begin repaying the State funds for the subsidies provided. These repayments are to continue until such time as the subsidies have been completely returned. The Authority has not recorded a liability and the State funds have not recorded receivables for these subsidies because: the reimbursements are contingent upon future net revenues, there is no repayment schedule, and the repayment commitment is long-term and budgetary in nature. Repayments may be authorized by the Authority, after consideration of the Authority's annual needs for its operations and planned repairs and improvements.

As of September 30, 2004, the Authority has repaid a total of \$10.3 million of the advance from the Michigan Transportation Fund, leaving a balance of \$52.8 million. No repayments have been made on the advance from the State Trunkline Fund.

## NOTE 19 – TRANSFERS

Interfund transfers for the year ended September 30, 2004, consisted of the following (in millions):

Transferred From	Transferred To				Total
	General Fund	Budget Stabilization Fund	School Aid Fund	Non-major Governmental Funds	
General Fund	\$ -	\$ 81.3	\$ 377.8	\$ 363.2	\$ 822.3
School Aid Fund	3.2	-	-	-	3.2
Non-major Governmental Funds	259.5	-	-	1,307.1	1,566.7
State Lottery Fund	13.2	-	644.9	-	658.1
Unemployment Compensation Funds	91.6	-	-	7.8	99.3
Non-major Enterprise Funds	144.2	-	-	-	144.2
Internal Service Funds	1.2	-	-	-	1.2
Fiduciary Funds	.1	-	-	-	.1
Total	<u>\$ 512.9</u>	<u>\$ 81.3</u>	<u>\$ 1,022.7</u>	<u>\$ 1,678.1</u>	<u>\$ 3,294.9</u>

Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, 3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Liquor Purchase Revolving Fund and the State Lottery Fund as required by law, 5) transfer budgetary surpluses from the General Fund to the Counter-Cyclical Budget and Economic

Stabilization Fund or transfer accumulated surpluses from the Counter-Cyclical Budget and Economic Stabilization Fund to other funds when necessary, and 6) transfer accumulated surpluses from other funds to the General Fund when authorized by statute.

In the fiscal year ended September 30, 2004, the State recorded transfers for \$81.3 million to the Counter-Cyclical Budget and Economic Stabilization Fund from the General Fund. These transfers were made in accordance with P.A. 309 of 2004, Section 204.

## NOTE 20 – FUND DEFICITS

### A. Primary Government

#### Governmental Funds

The Advance Financing Funds, a capital projects fund, had a fund balance deficit of \$18.4 million. The deficit was caused by expenditures for projects for which bonds have not yet been issued and for expenditures incurred to improve State-owned sites that have not been sold.

The State Building Authority, a capital projects fund, had a fund balance deficit of \$435.6 million. The deficit resulted because the issuance of commercial paper represents a fund liability and the corresponding construction projects are not reported as assets in the fund.

#### Proprietary Funds

The Office Services Revolving Fund, an internal service fund, had a fund balance deficit of \$4.7 million. The deficit resulted because rates charged were insufficient to cover expenses incurred. The rates were increased in fiscal year 2005 to eliminate the deficit.

### B. Discretely Presented Component Units

All discretely presented component units have positive net asset balances as of September 30, 2004, with the exception of the Michigan Broadband Development Authority (MBDA). MBDA's fund deficit of \$11.6 million was caused by expenses for projects for which not all corresponding revenue was received.

## NOTE 21 – FUND BALANCES

### A. Reservations - Primary Government

The line entitled "Reserved fund balance" on the Governmental Funds Balance Sheet at September 30 consists of the following (in millions):

	General Fund	School Aid Fund	Other Special Revenue Funds	Debt Service Funds	Permanent Funds	Total
Budgetary carry-forwards:						
Encumbrances	\$ 64.1	\$ .5	\$ 80.0	\$ -	\$ 13.3	\$ 157.9
Restricted revenues	527.8	72.4	307.9	-	-	908.1
Multi-year projects (capital outlay and work projects)	34.0	-	428.5	-	37.7	500.2
Construction and debt service	-	-	70.3	-	-	70.3
Revolving loan programs	5.0	-	49.4	-	-	54.4
Funds held as permanent investments	-	-	121.3	-	452.8	574.1
Noncurrent assets	538.9	1.1	30.0	-	-	570.0
Other purposes	-	-	-	.3	-	.3
<b>Total Reserved Fund Balances</b>	<b>\$ 1,169.8</b>	<b>\$ 74.1</b>	<b>\$ 1,087.4</b>	<b>\$ .3</b>	<b>\$ 503.8</b>	<b>\$ 2,835.4</b>

Budgetary carry-forwards represent unused spending authorization that continues to be available in the new year. Restricted revenue carry-forwards include revenues restricted by law for specified purposes. The largest restricted revenue carry-forward in the General Fund is related to the Low Income and Energy Efficient Program in the amount of \$34.1 million. The \$34.0 million of multi-year projects in the General Fund includes \$7.9 million of capital outlay and \$26.0 million of work project authorizations. Such amounts are reserved because the funds are legally segregated for a specific purpose.

Reserved fund balance for restricted revenues within the School Aid Fund represents the amount held within the school aid stabilization fund, created by P.A. 158 of 2003.

Reserves for revolving loan programs represent fund balance which has been appropriated for the purpose of making loans that will encourage economic development in the State.

Repayments on such loans are authorized to be used to make new loans.

Funds held as permanent investments represent amounts that have been legally restricted for the purpose of providing a long-term source of investment income. These investments can include either specific investments held for the fund or portions of the fund's share of the Common Cash pool.

Reserves are recorded for noncurrent assets if they do not represent current financial resources available for appropriation. No reservation is recorded for noncurrent assets if doing so would result in a duplicate reduction of unreserved fund balance. This occurs if the noncurrent assets have already been reserved for some other reason or if they are related to revenues that have been deferred because of not being "available."

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Reserved fund balance for other purposes represents a reserve account required by the State Park Gross Revenue Bonds document. This reserved amount is used to pay principal and interest in the event of default.

Also, no reservations of fund balances are recorded in single purpose special revenue funds. From the overall State perspective, the unreserved fund balances of funds other than the General Fund are restricted by the nature of the fund type and they are not available for general State purposes.

**B. Net Asset Designations - Primary Government**

The line "Unrestricted net assets" on the government-wide Statement of Net Assets contains designations as follows:

The State Sponsored Group Insurance Fund, an internal service fund described in Note 24, designated \$75.7 million for future catastrophic losses.

**NOTE 22 – DISAGGREGATION OF PAYABLES**

The line "Current Liabilities: Accounts payable and other liabilities," as presented on the government-wide Statement of Net Assets and the applicable Balance Sheets and Statements of Net Assets in the fund financial statements, consists of the following (in millions):

	General Fund	School Aid Fund	Non-major Governmental Funds	Other Funds	State Lottery Fund	Michigan Unemployment Compensation Funds	Non-major Enterprise Funds	Total
Medicaid Programs	\$ 496.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 496.5
Non-Medicaid Health Programs	169.4	-	.7	-	-	-	-	170.1
Family Independence Programs	186.0	-	.2	-	-	-	-	186.1
Transportation Programs	-	-	461.9	-	-	-	-	461.9
School Aid Programs	-	140.7	-	-	-	-	-	140.7
Merit Award Scholarships	-	-	69.6	-	-	-	-	69.6
Payroll and Withholdings	130.8	-	12.3	-	.3	-	.3	143.6
Tax Refunds other than Income Tax	95.8	7.0	4.2	-	-	-	-	107.0
Unearned Receipts	49.9	-	9.2	-	-	-	-	59.1
Amounts Held for Others	21.5	.2	7.4	-	1.4	-	-	30.5
Capital Project Related	-	-	38.4	-	-	-	-	38.4
Prize Awards	-	-	-	-	135.7	-	-	135.7
Liquor Purchase	-	-	-	-	-	-	58.3	58.3
Unemployment Payments	-	-	-	-	-	26.9	-	26.9
Internal Service Fund Liabilities	-	-	-	69.8	-	-	-	69.8
Due to Fiduciary Funds*	-	-	-	14.8	-	-	-	14.8
Miscellaneous	238.5	-	111.1	-	8.6	-	.2	358.4
<b>Total</b>	<b>\$ 1,388.3</b>	<b>\$ 148.0</b>	<b>\$ 715.0</b>	<b>\$ 84.6</b>	<b>\$ 146.0</b>	<b>\$ 26.9</b>	<b>\$ 58.7</b>	<b>\$ 2,567.4</b>

\*This amount represents amounts due to fiduciary funds that are reclassified as external payables on the government-wide Statement of Net Assets.

## NOTE 23 – CONTINGENCIES AND COMMITMENTS

### A. Primary Government

#### Litigation

In the government-wide and proprietary fund financial statements, the State accrues liabilities related to significant legal proceedings if a loss is probable and reasonably estimable. In the governmental fund financial statements, liabilities are accrued when cases are settled and the amount is due and payable.

The State is a party to various legal proceedings seeking damages, injunctive, or other relief. In addition to routine litigation, certain of these proceedings could, if unfavorably resolved from the point of view of the State, substantially affect State programs or finances. These lawsuits involve programs generally in the areas of corrections; tax collection; commerce and budgetary reductions to school districts and governmental units; and court funding. Relief sought generally includes damages in tort cases; improvement of prison medical and mental health care and refund claims for State taxes. The State is also a party to various legal proceedings that, if resolved in the State's favor, would result in contingency gains to the State, but without material effect upon fund balance/net assets. The ultimate dispositions and consequences of all of these proceedings are not presently determinable, but such ultimate dispositions and consequences of any single proceeding or all legal proceedings collectively should not themselves, except as listed below, in the opinion of the Attorney General of the State and the Office of the State Budget, have a material adverse effect on the State's financial position. Those lawsuits pending which may have a significant impact or substantial effect on State programs or finances, if resolved in a manner unfavorable to the State, include the following:

Durant et al v State of Michigan: On November 15, 2000, more than 365 Michigan school districts and individuals filed two suits in the Michigan Court of Appeals. The first suit, Durant et al v State et al ("Durant III"), asserts that the State School Aid appropriation act, P.A. 297 of 2000, violates the Michigan Constitution, Article 9, §§ 25-34 (the "Headlee Amendment"), because it allegedly transfers per pupil revenue guaranteed to school districts under the Constitution of 1963, Article 9, § 11, for unrestricted school operating purposes, in order to satisfy the State's independent funding obligation to those school districts under Article 9, § 29. The State won this case in the Court of Appeals, and the Supreme Court denied the plaintiffs' application for leave to appeal.

The second suit, Adair et al v State et al ("Adair"), asserts that the State has, by operation of law, increased the level of various specified activities and services beyond that which was required by State law as of December 23, 1978 and, subsequent to December 23, 1978, added various specified new activities or services by State law, including mandatory increases in student instruction time, without providing funding for these new activities and services, all in violation of the Headlee Amendment. In the original complaint, the Adair plaintiffs sought an unspecified money judgment equal to the reduction in the State financed proportion of necessary costs incurred by the plaintiff school districts for each school year from 1997-1998 through the date of any judgment and for attorneys' fees and litigation costs. The Adair plaintiffs also sought a declaratory judgment that the State has failed to meet its funding responsibility under the Headlee Amendment to provide the plaintiff school districts with revenues sufficient to pay for the necessary increased costs for activities and services first required by State law after December 23, 1978, and to pay for increases in the level of required activities and services beyond that which was required by State law as of December 23, 1978.

On January 2, 2001, plaintiffs filed a first amended complaint in both Durant III and Adair increasing the number of school district plaintiffs to 443. On February 22, 2001, plaintiffs filed a second amended complaint in Durant III increasing the number of school district plaintiffs to 457. On April 16, 2001, plaintiffs filed a second amended complaint in Adair increasing the number of school district plaintiffs to 463. The second amended complaint includes a request for declaratory relief, attorneys' fees and litigation costs but does not include a request for money judgment.

On April 23, 2002, the Court of Appeals dismissed the complaint in Adair in its entirety and with prejudice. Plaintiffs filed an application for leave to appeal and a motion for immediate consideration of the application for leave to appeal in the Michigan Supreme Court on May 14, 2002, which was granted on December 18, 2002.

On June 9, 2004, the Michigan Supreme Court issued its opinion in Adair. The Court held that, with three exceptions, all of the plaintiffs' claims were barred by the doctrines of *res judicata* and release. The Court ruled that all but three of the claims that plaintiffs alleged were new or increased activities could have been included in the Durant I litigation because the activities existed during the time that the Durant I litigation was pending.

The other three claims involve statutes that were enacted after the Court's 1997 Durant I decision. The Court ruled that two of these post-Durant I statutes are not new mandates because the activities are either not new or are merely permissive. The third claim involves the record keeping activities and the operation of the Center for Educational Performance and Information, which was created by Executive Order in 2000 (MCL 380.1752; EO 2000-9). Plaintiffs alleged that the statute and Executive Order require districts to create and maintain student data following State-specified data-gathering procedures and transmit the data electronically to the State. The Supreme Court ruled that the plaintiffs' allegation that districts had to now actively participate in maintaining data that the State requires for its own purposes presents a colorable claim under the Headlee Amendment. The Court reversed the Court of Appeals' dismissal of the claim and remanded the issue to the Court of Appeals to determine whether this claim constitutes a new State-mandated activity in violation of the Headlee Amendment. A Motion to Dismiss is pending before the Court of Appeals. If the plaintiffs prevail in the record keeping claim, there could be financial liability for the State.

County Road Association of Michigan et al v John M. Engler et al: On March 6, 2002, the County Road Association of Michigan and the Chippewa County Road Commission filed a complaint in Ingham County Circuit Court challenging various provisions of Executive Order 2001-9. The Executive Order was proposed by the Governor and approved by the appropriations committees of both houses of the Legislature on November 6, 2001, for the purpose of reducing appropriated expenditures, to balance the State budget. The complaint consists of five counts, alleging that Defendant State agencies: (1) violated Article 9, Section 9 of the State Constitution, by unlawfully allowing the Department of State to bill the Department of Transportation for expenses in excess of those necessary to collect motor vehicle taxes and fees; (2) violated Article 9, Section 9 of the State Constitution, by utilizing, for non-transportation purposes, revenues from the sale of information, or products, the creation of which was funded by constitutionally

restricted transportation funds; (3) violated Article 5, Section 20 and Article 9, Section 17 of the State Constitution, and MCL 247.661 *et seq* by allowing the Department of Treasury to bill the Department of Transportation for expenses in excess of those necessary to collect motor vehicle taxes and fees; (4) violated Article 9, Section 17 of the State Constitution, by transferring funds from the Comprehensive Transportation Fund (CTF) to the General Fund; and (5) violated Article 9, Section 17 of the State Constitution, by transferring funds from the Transportation Economic Development Fund to the General Fund.

Three public transit authorities have intervened in the suit, asserting a single claim identical to that alleged by Plaintiffs with respect to the CTF. The Plaintiffs and Intervenor seek preliminary and permanent injunctive relief to nullify particular provisions of Executive Order 2001-9 and to restore funding to the CTF, the Michigan Transportation Fund (MTF), and the Transportation Economic Development Fund.

The Plaintiffs and Intervenor obtained two injunctions from Ingham County Circuit Court Judge William E. Collette. One injunction barred the State from diverting \$20 million to the General Fund from the MTF and the other barred the State from diverting \$12.8 million to the General Fund from the CTF. The State was granted interlocutory appeals on February 19, 2003, and the Court of Appeals stayed the two injunctions. On January 13, 2004, in a published opinion, the Court of Appeals vacated the CTF injunction, and remanded for dismissal, holding that Executive Order 2001-9 legitimately diverted \$12.8 million from the CTF to the General Fund. On the same day, in an unpublished opinion, the Court of Appeals reversed in part and affirmed in part the MTF injunction, holding that \$12.5 million was legitimately diverted from the MTF to the General Fund but that the remainder was not. In February 2004 Intervenor filed an application in the Supreme Court seeking reversal of the Court of Appeals as to the CTF injunction.

In April 2004 the State filed an application for leave in the Supreme Court seeking reversal of the Court of Appeals as to the unfavorable portion of the decision affecting the MTF injunction. That same month Plaintiffs filed an application in the Supreme Court seeking reversal of the Court of Appeals as to the favorable portion of the decision affecting the MTF injunction. In September 2004 the Supreme Court entered an order holding the two applications concerning the MTF injunction in abeyance and notifying the parties that it is considering the application concerning the CTF injunction and the oral argument will be heard and supplemental briefs may be filed. The State may have to provide an alternate source of funding to balance the budget and make up revenue shortfalls of approximately \$35 million of the original \$60 million sought.

Two consolidated class actions, representing approximately 4,000 motor carriers subject to Michigan regulation, originated in the Court of Claims in Westlake, et al v State of Michigan and Troy Cab v State of Michigan, et al. The motor carriers claim a full refund of annual motor carrier authority fees and per vehicle fees (plus interest) dating back to 1982. The amount of such fees collected approximates several million dollars per year.

On March 11, 2003, the Michigan Court of Appeals dismissed all claims against the State. Plaintiffs' Applications for Leave to Appeal at the Michigan Supreme Court were denied on December 3, 2003. However, the Plaintiffs have now filed Petitions for Writs of Certiorari at the U.S. Supreme Court, which has requested briefs from the Department of Justice on the merits of the Petition. Based on the position taken in the Department of Justice briefs, it is reasonably possible that Plaintiffs will prevail. The entire potential claim, including interest, could exceed \$75 million.

Comben v State of Michigan: The Court of Appeals held that in light of Section 15 of the Severance Tax Act, MCL 205.315, severed oil and gas are not subject to taxation and foreclosure under the General Property Tax Act. Plaintiff Antrim County Treasurer originally sought a declaratory ruling whether owners of severed oil and gas interests were entitled to notice of tax foreclosures under the new tax foreclosure process adopted in 1999 P.A. 123. The trial court and the Court of Appeals held that under the severance tax act and the dormant minerals act, severed oil and gas rights are not subject to taxation and foreclosure. An Application for Leave to Appeal has been filed with the Michigan Supreme Court.

The State presently holds mineral rights only in 2.1 million acres of land, and mineral and surface rights in another 3.8 million acres of land, which reverted to the State for tax delinquencies and which are administered by the Department of Natural Resources. The vast majority of these 5.9 million acres of mineral rights were obtained by tax foreclosures occurring before 1941. State revenues from oil and gas activities over the last 10 years have averaged approximately \$35 million annually. A separate class action to quiet title to severed oil and gas rights and for damages is presently pending in Antrim County Circuit Court. The action is consolidated with a Court of Claims action with the same name (Black Stone Minerals v State of Michigan).

#### **Federal Grants**

The State receives significant financial assistance from the federal government in the form of grants and entitlements. The receipt of federal grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations. Substantially all federal grants are subject to either federal single audits or financial and compliance audits by grantor agencies. Questioned costs as a result of these audits may become disallowances after the appropriate review of federal agencies. Material disallowances are recognized as fund liabilities in the government-wide and proprietary fund financial statements when the loss becomes probable and reasonably estimable. As of September 30, 2004, the State estimates that additional disallowances of recognized revenue will not be material to the general purpose financial statements.

Federal sanctions that may result in a loss to the State include \$50.4 million for the Food Stamp Program.

Lakeland Neurocare et al v State of Michigan: Two lawsuits involving a group of eight non-Medicaid nursing homes challenge the constitutionality and legality of MCL 333.20161. Originally enacted in May 2002, this provision requires Department of Community Health (DCH) to assess a "bed tax" against all non-governmental nursing homes, to use this revenue to draw down "matching" federal funds, and to pay the combined sum to Medicaid nursing homes as increased reimbursement. For the first fiscal year, this resulted in more than \$100 million in increased payments. For the 2003-2004 fiscal year, this sum more than doubled. In November 2003, Ingham County Circuit Court Judge William Collette ruled that the original version of the Act violated the constitution by not distinctly stating the assessment as a tax. In December 2003, the Legislature corrected this misunderstanding, made it retroactive to May 2002, and increased the cap on the amount the DCH could assess. In two subsequent rulings, Judge Collette has effectively exempted the plaintiff homes from payment of the tax for two periods of time. The first of those – compelling repayment of \$1.3 million escrowed from 2002-2003 – is pending before the Court of Appeals on application for leave. The second of them – enjoining collection of the tax for the period October 1, 2003 through December 28, 2003 - will also be appealed when the order enters. DCH is concerned that, if allowed to stand, these exemptions will result in the

federal government finding that Michigan's bed tax violates the governing law, 42 USC 1396b(w) – by not being uniformly imposed on the entire class. This translates to potential disallowances totaling more than \$150 million for the two years.

#### **Gain Contingencies**

Certain contingent receivables related to the Family Independence Agency are not recorded as assets in these statements. Amounts recoverable from Family Independence Agency grant recipients for grant overpayments or from responsible third parties are recorded as receivables only if the amount is reasonably measurable, expected to be received within 12 months, and not contingent upon future grants or the completion of major collection efforts by the State. If recoveries are accrued and the program involves federal participation, a liability for the federal share of the recovery is also accrued. The unrecorded amount of potential recoveries, which are ultimately collectible, cannot be reasonably determined.

In November 1998, the Attorney General joined 45 other states and five territories in a settlement agreement against the nation's largest tobacco manufacturers, to seek restitution for monies spent by the states under Medicaid and other health care programs for treatment of smoking-related diseases and conditions. Michigan's share of the settlement is expected to be \$8.5 billion over the next 25 years, and then \$350.0 million per year, adjusted for inflation and other factors, in perpetuity. While Michigan's percentage share of the base payments will not change over time, the amount of the annual payment is subject to a number of modifications including adjustments for inflation and usage volumes. Some of the adjustments may result in increases in the payments (inflation, for example), while other adjustments will likely cause decreases in the payments (non-participating manufacturer adjustments, for example). The net effect of these adjustments on future payments is unclear, therefore only receivables and deferred revenues which can be reasonably estimated have been recorded for the future payments.

#### **Construction Projects**

The Department of Transportation has entered into construction contracts that will be paid with transportation related funds. As of September 30, 2004, the balances remaining in these contracts equaled \$545.5 million.

#### **Contingent Liability for Local School District Bonds**

Public Act 108 of 1961, as amended, resulted in a contingent liability for the bonds of any school district which are "qualified" by the Superintendent of Public Instruction. Every qualified school district is required to borrow and the State is required to lend to it any amount necessary for the school district to avoid a default on its qualified bonds. In the event that funds are not available in the School Bond Loan Fund in adequate amounts to make such a loan, the State is required to make such loans from the General Fund. As of September 30, 2004, the principal amount of qualified bonds outstanding was \$13.5 billion. Total debt service requirements on these bonds

including interest will approximate \$1.2 billion in 2005. The amount of loans by the State (related to local school district bonds qualified under this program), outstanding to local school districts as of September 30, 2004, is \$527.4 million. Interest due on these loans as of September 30, 2004, is \$87.7 million.

### **B. Discretely Presented Component Units**

#### **Student Loan Guarantees**

The Michigan Higher Education Assistance Authority (MHEAA) is contingently liable for loans made to students by financial institutions that qualify for guaranty. The State, other than MHEAA, is not liable for these loans. MHEAA's default ratio is currently below 5% for the fiscal year ended September 30, 2004. As a result, the federal government's reinsurance rate for defaults for the fiscal year ended September 30, 2004, is 100% for loans made prior to October 1, 1993, and 98% for loans made on or after October 1, 1993, to September 30, 1998. In the event of future adverse default experience, MHEAA could be liable for up to 25% of defaulted loans. Management does not expect that all guaranteed loans could default in one year. At the beginning of each fiscal year, MHEAA's reinsurance rate returns to 98%.

For loans made on or after October 1, 1998, the reinsurance rate will be 95%. In the event of future adverse default experience, MHEAA could be liable for up to 25% of such defaulted loans. Accordingly, MHEAA's expected maximum contingent liability is less than 25% of outstanding guaranteed loans; however, the maximum contingent liability at September 30, 2004, is \$759.4 million.

MHEAA entered into commitment agreements with all lenders that provide, among other things, that MHEAA will maintain cash and marketable securities. MHEAA was in compliance with this requirement as of September 30, 2004, at an amount sufficient to guarantee loans in accordance with the Higher Education Act of 1965, as amended.

#### **Multi-Family Mortgage Loans**

As of June 30, 2004, the Michigan State Housing Development Authority (MSHDA) has commitments to issue multi-family mortgage loans in the amount of \$77.4 million and single-family mortgage loans in the amount of \$7.7 million.

MSHDA has committed up to approximately \$2.1 million per year for up to 30 years from the date of completion of the respective developments (subject to three years advance notice of termination) from its accumulated reserves and future income to subsidize operations or rents for certain tenants occupying units in certain developments funded under MSHDA's multi-family program.

## NOTE 24 – RISK MANAGEMENT

### A. Primary Government

#### General

The State has elected not to purchase commercial insurance for many of the risks of losses to which it is exposed. The State is self-insured for most general liability and property losses, portions of its employee insurance benefit and employee bonding programs, automobile liability, and workers' compensation and unemployment compensation claims. Areas of risk where some level of insurance coverage is purchased include: aircraft liability, property and loss rental insurance that may be required by bond or lease agreements, portions of the State employee insurance benefits program, certain State artifacts, builder's risk coverage, boiler and machinery coverage, and employee bonding. Settled claims have not exceeded commercial coverage in any of the past ten fiscal years.

The State has established two internal service funds, which are described below, to account for certain aspects of the risk management program. Fund expenditures (expenses) are recognized in the paying funds in a manner similar to purchased commercial insurance. For other uninsured losses not covered by an internal service fund program, such as general liability and property losses, the State recognizes fund liabilities in the fund incurring the loss as follows: governmental funds record an expenditure when a loss is due and payable; proprietary funds record an expense when it is probable that a loss has occurred

and the amount can be reasonably estimated. As explained more fully in Note 14, losses for workers' compensation and certain types of litigation losses have been recognized as liabilities in the government-wide financial statements.

For unemployment claims, the Unemployment Agency (UA) bills the State for the actual amount of claims paid to former State employees. The State accrues liabilities in the governmental fund financial statements for unemployment compensation, only to the extent paid by UA through September 30. During the 2003-2004 fiscal year, expenditures for payments to former State employees (not including university employees) totaled \$15.6 million. The potential liability for future payments cannot be estimated.

The State's two internal service funds, which account for certain areas of risk management, such as portions of its employee insurance benefits, employee bonding, and automobile liability, follow accounting standards established by the GASB. This results in a reporting which is very similar to that used in the private insurance industry. The various component programs within the two funds may incur deficits during a given year, but each program's surplus and unrestricted net asset balance is considered in calculating future charges or benefit levels.

#### Risk Management Fund

This fund was established during fiscal year 1989-1990 to account for insurance management activities implemented within the Department of Management and Budget. The automotive liability and administrative functions are accounted for as operating activities of this fund. Expenses and liabilities for claims, including incurred but not reported or not processed claims, have been recorded in the amount of \$7.5 million. This includes a long-term portion, which is recorded at \$5 million. Changes in the Risk Management Fund's claims for automobile liability for the fiscal years ending September 30, 2004 and 2003 are as follows (in millions):

	2004	2003
Balance - beginning	\$ 7.6	\$ 6.6
Current year claims and changes in estimates	1.7	3.4
Claim payments	(1.7)	(2.5)
Balance - ending	<u>\$ 7.5</u>	<u>\$ 7.6</u>

#### State Sponsored Group Insurance Fund

The Department of Management and Budget uses this fund to account for employee and retiree insurance benefit programs, which are largely self-funded. Expenses and liabilities for claims, which include incurred but not reported or not processed benefit claims, based on preliminary estimates from the plan administrators, have been recorded as liabilities in the amount of \$167.9 million. This includes a long-term portion, which is recorded at a discounted present value of \$87.5 million using a discount rate of 10.5% (first 10 years of disability), 9.0% (next 10 years), and 6.0% thereafter for claims incurred prior to January 1, 1993. Claims incurred in past years were discounted using rates as follows in the calculation of incurred but not reported claims: 1993 and 1994 used a rate of 6.0%, 1995 used a rate of 6.25%, 1996 and 1997 used a rate of 5.75%, and 1998 through 2002 used a rate of 5.25%, and 2003 and 2004 used a rate of 5.50%.

Payments to the State Sponsored Group Insurance Fund are based on estimates of amounts needed to pay prior and current year claims. In addition, a portion of the fund's net assets has been designated for catastrophic losses. The risk management designation represents the level of reserves that should be maintained to ease large fluctuations in premium levels in years of unexpected excessive claims. That designation was \$75.7 million at September 30, 2004. Unrestricted net assets totaled \$86.7 million at September 30, 2004.

Changes in the State Sponsored Group Insurance Fund's claims liability for employee and retiree insurance benefit programs for the fiscal years ending September 30, 2004 and 2003 are as follows (in millions):

	2004	2003
Balance - beginning	\$ 179.2	\$ 172.7
Current year claims and changes in estimates	857.8	611.7
Claim payments	(869.1)	(605.2)
Balance - ending	<u>\$ 167.9</u>	<u>\$ 179.2</u>

### B. Discretely Presented Component Units

#### State Universities

The State university component units participate with the other Michigan public universities in the Michigan Universities Self-Insurance Corporation (MUSIC), which provides indemnity to its members against comprehensive general liability, errors and omissions losses, and property damage commonly covered by insurance. Loss coverages for comprehensive general liability and property are structured on a three-layer basis with each member retaining a portion of its losses, MUSIC covering the second layer, and commercial carriers covering the third layer. For all policy years through June 30, 1993, errors and omissions coverage was structured on a two-layer basis with no excess insurance provided. Effective July 1, 1993, MUSIC obtained excess insurance coverage from commercial carriers covering the third layer. For automobile liability there is no member retention. Comprehensive general liability, property and automobile liability coverage is provided on an occurrence basis; errors and omissions coverage is provided on a claims made basis.

## **NOTE 25 – SUBSEQUENT EVENTS**

### **A. Long-Term Borrowing**

In October 2004, the State of Michigan issued Multi-Modal General Obligation School Loan Bonds, Series 2004C in the aggregated principal amounts of \$22.0 million. The Series 2004C Bonds were issued in the Commercial Paper Rate Mode. The bonds will mature on March 21, 2024.

In November 2004, the State of Michigan issued Full Faith and Credit General Obligation Notes in the amount of \$1.3 billion. The notes will mature on September 30, 2005, with interest rates of 2.0% and 3.5%.

### **B. Investments**

In November 2004, the value of a short-term investment held by the State of Michigan Retirement System was permanently written down resulting in a loss of \$12 million. The amount of the write down was less than .03% of the total value of the portfolio, which was \$47 billion at September 30, 2004.

### **C. Long-Term Borrowing - Discretely Presented Component Units**

Subsequent to their respective year-ends, the following discretely presented component units issued bonds and/or entered into swap agreements (in millions):

	Bonds Issued	Swap Agreements
Michigan Public Educational Facilities Authority	\$ 3.8	\$ -
Michigan State Hospital Finance Authority	86.7	-
Michigan State Housing Development Authority	197.8	-
Grand Valley State University	28.0	-
Oakland University	31.8	-
Saginaw Valley State University	11.8	-
Western Michigan University	-	45.9
Total	<u>\$ 360.0</u>	<u>\$ 45.9</u>

Disclosures regarding these bonds and transactions are available in the separately issued reports of the various organizations.



## **II FINANCIAL SECTION**

### **REQUIRED SUPPLEMENTARY INFORMATION**

## REQUIRED SUPPLEMENTARY INFORMATION

## BUDGETARY COMPARISON SCHEDULE

## MAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2004

(In Thousands)

	GENERAL FUND			VARIANCE WITH FINAL BUDGET
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
Beginning budgetary fund balance	\$ 884,545	\$ 884,545	\$ 884,545	\$ -
Resources (inflows):				
General Purpose Revenues:				
Taxes	7,982,900	7,881,503	7,881,503	-
Federal	20,000	248,354	248,354	-
Local	1,000	2,939	2,939	-
Licenses and permits	18,000	55,181	55,181	-
Services	5,000	17,843	17,843	-
Miscellaneous	4,800	165,288	165,288	-
Transfers in	127,000	344,654	344,654	-
Restricted Revenues:				
Taxes	1,987,278	2,808,351	2,808,351	-
Federal	8,926,891	9,010,550	9,010,550	-
Local	912,459	811,164	811,164	-
Licenses and permits	369,479	323,802	323,802	-
Services	102,749	129,840	129,840	-
Miscellaneous	948,442	380,195	380,195	-
Proceeds from sale of capital assets	-	4,609	4,609	-
Transfers in	76,551	168,251	168,251	-
Total Revenue Inflows	<u>21,482,549</u>	<u>22,352,524</u>	<u>22,352,524</u>	<u>-</u>
Amounts Available for Appropriation	<u>22,367,094</u>	<u>23,237,069</u>	<u>23,237,069</u>	<u>-</u>
Charges to Appropriations (outflows):				
Legislative Branch	130,689	118,953	118,205	747
Judicial Branch	260,286	252,550	250,513	2,037
Executive Branch:				
Agriculture	106,888	93,585	91,949	1,636
Attorney General	62,696	55,024	52,419	2,605
Civil Rights	13,117	12,587	12,424	164
Civil Service	33,303	25,904	24,449	1,455
Colleges and Universities Grants	1,923,331	1,837,995	1,829,853	8,143
Community Health	9,382,751	9,913,885	9,952,118	(38,232)
Corrections	1,746,113	1,694,995	1,648,915	46,080
Education	396,488	457,397	454,594	2,803
Environmental Quality	311,065	181,835	179,660	2,174
Executive Office	4,860	4,860	4,673	186
Family Independence Agency	3,969,486	3,984,155	3,945,671	38,485
History, Arts & Libraries	57,727	58,753	57,382	1,371
Labor and Economic Growth	749,598	716,658	715,329	1,329
Management and Budget	571,981	530,601	522,197	8,403
Military and Veterans Affairs	98,219	102,291	97,783	4,508
Natural Resources	93,918	79,002	78,030	972
State	184,165	174,894	172,991	1,903
State Police	467,229	406,726	403,677	3,049
Transportation	7,772	3,672	3,672	-
Treasury	1,780,341	2,477,892	2,464,008	13,884
Payroll expenditure adjustment	-	8,500	28,867	(20,367)
Intrafund expenditure reimbursements	-	(551,792)	(551,792)	-
Total Charges to Appropriations	<u>22,352,024</u>	<u>22,640,922</u>	<u>22,557,587</u>	<u>83,335</u>
Reconciling Items:				
Encumbrances at September 30	-	64,124	64,124	-
Change in noncurrent assets	-	(112,690)	(112,690)	-
Net Reconciling Items	-	(48,566)	(48,566)	-
Ending Budgetary Fund Balance	<u>\$ 15,070</u>	<u>\$ 547,581</u>	<u>\$ 630,916</u>	<u>\$ 83,335</u>

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## REQUIRED SUPPLEMENTARY INFORMATION

## BUDGETARY COMPARISON SCHEDULE

## BUDGET-TO-GAAP RECONCILIATION

SEPTEMBER 30, 2004

(In Thousands)

	GENERAL FUND	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND
<b>Sources/inflows of resources</b>			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 23,237,069	\$ 81,258	\$ 12,374,969
Differences - budget to GAAP:			
Budgetary fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(884,545)	-	(113,978)
Proceeds from sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes	(4,609)	-	-
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(512,905)	(81,258)	(1,022,683)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	<u>\$ 21,835,010</u>	<u>\$ -</u>	<u>\$ 11,238,308</u>
<b>Uses/outflows of resources</b>			
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	\$ 22,557,587	\$ -	\$ 12,302,572
Differences - budget to GAAP:			
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	(64,124)	-	(510)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(822,275)	-	(3,167)
Capital lease acquisitions are not outflows of budgetary resources but are recorded as current expenditures and other financing sources under GAAP.	19,661	-	-
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	<u>\$ 21,690,848</u>	<u>\$ -</u>	<u>\$ 12,298,895</u>

## Required Supplementary Information

### Notes to Required Supplementary Information – Budgetary Reporting

#### Statutory/Budgetary Presentation

The various funds and programs within funds utilize a number of different budgetary control processes. Annual legislative appropriations and revenue estimates are provided for most “operating” funds. (Note 2 of the basic financial statements identifies the annually budgeted operating funds.)

The original executive budget and original legislative appropriations provide general purpose (unrestricted) revenue estimates in order to demonstrate compliance with constitutional provisions. Revenues restricted by law or outside grantors to a specific program are estimated at a level of detail consistent with controlling related expenditure accounts.

For programs financed from restricted revenues, spending authorization is generally contingent upon recognition of the related revenue. Reductions of spending authority occur if revenues fall short of estimates. If revenues exceed the estimate, supplemental appropriations are required before the additional resources can be spent.

The budgetary comparison schedule presented for the General Fund, the Budget Stabilization Fund, and the School Aid Fund presents both the original and final appropriated budgets for fiscal year 2003-2004, as well as the actual resource inflows, outflows and fund balance stated on the budgetary basis. The supplementary portion of this report includes a Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual, by fund type, for non-major special revenue and permanent funds with annual budgets. Those schedules only include the final appropriated budget.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriation bills as of October 1, 2003, and includes encumbrance and multi-year projects budgetary carry-forwards from the prior fiscal year.

The budgetary fund balance represents total fund balance, net of reserves for noncurrent assets. Reserves for noncurrent assets do not represent current financial resources available for appropriation and are removed for budgetary purposes.

Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the “final budget” column, therefore updated revenue estimates available for appropriations as of November 30, rather than the amounts shown in the original budget, are reported. The November 30 date is used because P.A. 431 of 1984, as amended, permits budget adjustments by the Legislature through 60 days after year-end.

The final appropriations budget represents original and supplemental appropriations, carry-forwards, carry-backs (i.e., current year appropriations for prior year overdrafts), approved transfers, executive order reductions, and timing differences. Expenditures, transfers out, other financing uses, and encumbrances are combined and classified by department rather than being reported by character and function as shown in the GAAP statements. This departmental classification is used to better reflect organizational responsibility and to be more consistent with the budget process. Appropriations include interagency expenditure reimbursement, in which one agency provides funding to another agency within the same fund. The final budget and actual amounts are adjusted to eliminate the duplication.

The timing differences result from unspent authorizations for multi-year projects, such as capital outlay and work projects, and from restricted revenues that had not been appropriated for expenditure in the current year. Such authorization balances remaining at year-end are removed from the final budget column to provide an “annualized” budget.

Positive “variances” reflect restricted revenues that were appropriated and available for expenditure in the current year and unused general purpose spending authority (lapses); negative “variances” reflect budgetary overdrafts. If both positive and negative variances exist for a particular line, the amount shown is the net variance.

#### Statutory/Budgetary Reconciliation

The statutory/budgetary basis presentation differs from GAAP in ways that do not affect ending fund balance.

For budgetary reporting purposes, expenditures and transfers out in the “Actual” column include recorded encumbrances, because they are considered uses of spending authority in the year the State incurs an obligation. The “Original” and “Final Budget” columns include encumbrance authorization balances carried over from the prior fiscal year, because they provided spending authority in the current year. In the GAAP basis statements, expenditures do not include encumbrances. The effect of this difference is reflected as a reconciling item on the Budgetary Comparison Schedule for the major funds and the Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual for the non-major special revenue funds and permanent funds. The encumbrance of spending authority is recorded as a reservation of fund balance under both bases of accounting.

For budgetary purposes, capitalizable lease expenditures are recognized when payments are due, rather than upon lease inception as required by GAAP. This difference does not affect fund balance because the “other financing sources” recorded under GAAP at lease inception are not recorded on the statutory/budgetary basis.

## Required Supplementary Information

### Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include the State's network of public transportation roads and bridges, including ancillary assets, such as guard rails, signs, lighting, culverts, fencing, and the like. The State is responsible for maintaining approximately 27,534 lane miles of roads and 4,724 bridges (spans in excess of 20 feet).

In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State.
- Document that the assets are being preserved approximately at, or above, the established condition level.

### Roads

#### Measurement Scale

The Michigan Department of Transportation (MDOT) uses numerous methods to determine the condition of roadway pavements; however, the Sufficiency Rating serves as the State's primary method to measure and monitor pavement conditions. In use since 1961, the Sufficiency Rating is a visual analysis conducted by an engineer and includes a 5-point scale, as follows:

Rating	Bituminous Surface	Concrete Surface
1.0 = Excellent	Pavement shows no visible deterioration. Distresses are non-existent.	Same
2.0 = Good	Some indication of initial deterioration, but not yet requiring appreciable amounts of maintenance. Distress items include the start of small transverse and/or longitudinal cracks. Slight rutting may be apparent in the wheel path.	Some indication of initial deterioration, but not yet requiring appreciable amounts of maintenance. Distress items may include the start of small transverse and/or longitudinal cracks, or slight seam and joint separation. Joints may show very small amounts of deterioration.
3.0 = Fair	Average deterioration requiring occasional routine maintenance. Distresses may include minor transverse and longitudinal cracking becoming continuous throughout the segment. Severe cracking is patched effectively. Rutting may be a little more severe and hold small amounts of water.	Average deterioration requiring occasional routine maintenance. Distresses may include minor transverse and longitudinal cracking becoming continuous throughout the segment. Severe cracking is patched effectively. Through lanes and shoulders may begin to show separation from failing tie bars.
4.0 = Poor	Excessive deterioration requiring frequent maintenance and warrants resurfacing soon. Distress may be evident in wide transverse and longitudinal cracks. Severe "shallow cracking" could be evident if the pavement is composite. If the segment has been patched, the cracks may be showing through. Rutting is severe and may effect driving.	Excessive deterioration requiring frequent maintenance and warrants resurfacing soon. Distress may be evident in wide transverse and longitudinal cracks. If the segment has been patched, cracks may be showing through. Joint repairs could begin to fail. Shoulder and/or through-lane separation may be apparent. Popouts or spalling could also be present in the section.
5.0 = Very Poor /Failed	Extreme deterioration requiring continuous maintenance and warrants resurfacing or total cross-section replacement. Distress items may include severe transverse and longitudinal cracking or severe alligator cracking. Shadow cracking in composite pavement is wider than 1". Rutting in wheel path may be severe and patching is no longer beneficial to pavement condition.	Extreme deterioration requiring continuous maintenance and warrants resurfacing or total cross-section replacement. Distress items may include severe transverse and longitudinal cracking, joints failing, and the patching is no longer beneficial to pavement condition. Spalling and edge cracking could also be severe.

#### Established Condition Level

No more than 30% of the pavements shall be rated as "poor" or "very poor."

#### Assessed Conditions

The State assesses condition on a calendar year basis. The following table reports the percentage of pavements meeting ratings of "Good" or "Poor", for the past five years. "Good" represents ratings of 1.0 through 3.0 above and "Poor" represents ratings of 4.0 and 5.0.

Rating	2003	2002	2001	2000	1999
Good	80.0%	78.1%	78%	78%	75%
Poor	20.0%	21.9%	22%	22%	25%

## Bridges

### Measurement Scale

MDOT utilizes the National Bridge Inventory to monitor the condition of bridges (spans in excess of 20 feet) under its jurisdiction. The inventory rates bridges, including the deck, superstructure and substructure, using a 10-point scale:

Rating	Description
9	Excellent (no specific definition).
8	Very good.
7	Good. Some minor problems.
6	Satisfactory. Structural elements show some minor deterioration.
5	Fair. All primary structural elements are sound but may have minor section loss, cracking, spalling, or scour.
4	Poor. Advanced section loss, deterioration, spalling, or scour.
3	Serious. Loss of section, deterioration, spalling, or scour have seriously affected primary structural components. Local failures are possible. Fatigue cracks in steel or shear cracks in concrete may be present.
2	Critical. Advanced deterioration of primary structural elements. Fatigue cracks in steel or shear cracks in concrete may be present or scour may have removed substructure support. Unless closely monitored it may be necessary to close the bridge until corrective action is taken.
1	Imminent failure. Major deterioration or section loss present in critical structural components or obvious vertical or horizontal movement affecting structure stability. Bridge is closed to traffic, but corrective action may put it back in light service.
0	Failure. Out of service; beyond corrective action.

### Established Condition Level

No more than 35% of the bridges shall be rated as "structurally deficient."

### Assessed Conditions

"Structurally deficient" results when a condition of 4 or worse is assessed to at least one of the major structural elements (e.g. the deck, superstructure, or substructure). The following table reports the percentage of bridges whose condition was assessed as "structurally deficient", in the stated year:

Calendar Year	Structurally Deficient
2003	16.6%
2002	20.3%
2001	20.9%
2000	22.5%
1999	18.9%

### Budgeted and Estimated Costs to Maintain

The following table presents the State's estimate of spending necessary to preserve and maintain the roads and bridges at, or above, the "Established Condition Levels" cited above, and the actual amount spent during the past five fiscal years (in millions):

Fiscal Year	Estimated Spending	Actual Spending
2004-2005	\$932.0	-
2003-2004	\$921.0	\$857.6
2002-2003	\$873.6	\$791.3
2001-2002	\$993.3	\$798.2
2000-2001	\$984.3	\$915.2
1999-2000	\$817.4	\$895.3

The budgeting process utilized by the Department of Transportation results in spending in one fiscal year from amounts that were budgeted in a previous year(s). Therefore, this timing difference does not allow a true comparison of amounts budgeted and spent within a given year. This table, and other tables within this narrative demonstrate that the State has incurred the necessary expenditures to meet its desired condition levels.

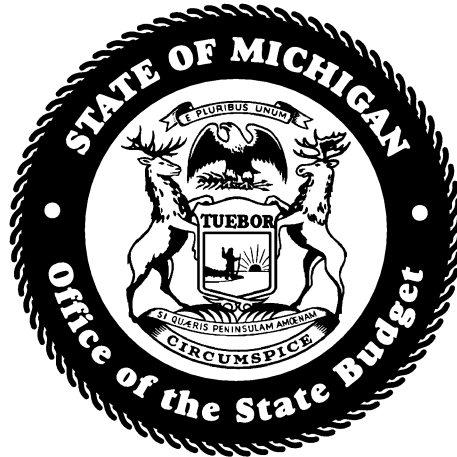




House of Representatives Appropriations Room



Supreme Court – Senate Appropriations Room



## **II FINANCIAL SECTION**

### **COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES – NON-MAJOR FUNDS**

**Michigan**

**BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE**  
 SEPTEMBER 30, 2004  
 (In Thousands)

	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT FUNDS	TOTALS
<b>ASSETS</b>					
Current Assets:					
Cash	\$ 1,042	\$ 4,649	\$ -	\$ -	\$ 5,691
Equity in common cash	999,309	5,510	3,128	272,013	1,279,959
Taxes, interest, and penalties receivable	126,383	-	-	-	126,383
Amounts due from other funds	909,862	5,690	45,595	-	961,147
Amounts due from component units	1,213	-	1,779	-	2,991
Amounts due from federal agencies	167,293	-	6	-	167,299
Amounts due from local units	58,419	-	3,794	101	62,315
Inventories	6,067	-	-	-	6,067
Investments	-	378,649	60,863	-	439,512
Securities lending collateral	4,242	-	-	17,532	21,775
Other current assets	227,064	370	1,617	9,072	238,123
Total Current Assets	2,500,895	394,867	116,782	298,719	3,311,264
Taxes, interest, and penalties receivable	1,411	-	-	-	1,411
Advances to other funds	21,689	-	-	-	21,689
Amounts due from local units	46,270	-	-	-	46,270
Investments	64,953	6,000	-	309,955	380,908
Other noncurrent assets	6,985	-	-	-	6,985
Total Assets	\$ 2,642,204	\$ 400,867	\$ 116,782	\$ 608,674	\$ 3,768,527
<b>LIABILITIES AND FUND BALANCES</b>					
Current Liabilities:					
Warrants outstanding	\$ 60,884	\$ -	\$ 69	\$ 205	\$ 61,159
Obligations under security lending	4,242	-	-	17,532	21,775
Accounts payable and other liabilities	627,671	4,726	38,405	44,210	715,012
Amounts due to other funds	104,851	30,000	79,831	54	214,735
Amounts due to component units	-	-	-	120	120
Bonds and notes payable	-	-	449,170	-	449,170
Interest payable	-	-	367	-	367
Deferred revenue	259,509	-	-	-	259,509
Total Current Liabilities	1,057,158	34,726	567,842	62,121	1,721,847
Long-Term Liabilities:					
Advances from other funds	21,689	-	-	-	21,689
Deferred revenue	19,294	-	-	-	19,294
Total Liabilities	1,098,140	34,726	567,842	62,121	1,762,830
Fund Balances:					
Reserved fund balance	1,087,404	300	-	503,775	1,591,479
Unreserved fund balance (deficit)	456,659	365,841	(451,060)	42,778	414,218
Total Fund Balances	1,544,064	366,141	(451,060)	546,553	2,005,697
Total Liabilities and Fund Balances	\$ 2,642,204	\$ 400,867	\$ 116,782	\$ 608,674	\$ 3,768,527

**Michigan**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE**  
FISCAL YEAR ENDED SEPTEMBER 30, 2004  
(In Thousands)

	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT FUNDS	TOTALS
<b>REVENUES</b>					
Taxes	\$ 2,139,616	\$ -	\$ -	\$ -	\$ 2,139,616
From federal agencies	1,063,757	-	-	832	1,064,589
From local agencies	130,262	-	-	-	130,262
From services	457	-	-	-	457
From licenses and permits	176,875	-	-	-	176,875
Miscellaneous	553,125	3,247	22,695	69,695	648,762
Total Revenues	4,064,091	3,247	22,695	70,528	4,160,560
<b>EXPENDITURES</b>					
Current:					
General government	103,758	586	290	711	105,345
Education	100,391	4,230	135,842	-	240,463
Family independence services	4	-	-	2,695	2,699
Public safety and corrections	-	-	-	2,695	2,695
Conservation, environment, recreation, and agriculture	241,947	-	-	14,188	256,134
Labor, commerce, and regulatory	189,448	-	-	-	189,448
Health services	98,360	-	-	-	98,360
Transportation	2,211,490	881	-	-	2,212,371
Capital outlay	1,004,286	-	36,364	17,403	1,058,052
Debt Service:					
Bond principal retirement	-	729,557	-	-	729,557
Bond interest and fiscal charges	-	241,194	-	-	241,194
Capital lease payments	717	-	-	-	717
Total Expenditures	3,950,400	976,448	172,496	37,691	5,137,036
Excess of Revenues over (under) Expenditures	113,690	(973,201)	(149,801)	32,836	(976,475)
<b>OTHER FINANCING SOURCES (USES)</b>					
Bonds and notes issued	390,346	-	130,330	-	520,676
Premium on bond issuance	15,535	33,606	6,799	-	55,940
Refunding bonds issued	-	660,249	-	-	660,249
Payment to refunded bond escrow agent	-	(247,256)	-	-	(247,256)
Proceeds from sale of capital assets	6,903	-	438	5,286	12,627
Transfers from other funds	1,095,057	523,131	49,906	10,000	1,678,094
Transfers to other funds	(1,504,444)	(1)	(52,109)	(10,098)	(1,566,652)
Total Other Financing Sources (Uses)	3,396	969,730	135,364	5,188	1,113,677
Excess of Revenues and Other Sources over (under) Expenditures Other Uses	117,087	(3,471)	(14,438)	38,024	137,202
Fund Balances - Beginning of fiscal year restated	1,426,977	369,613	(436,623)	508,529	1,868,496
Fund Balances - End of fiscal year	\$ 1,544,064	\$ 366,141	\$ (451,060)	\$ 546,553	\$ 2,005,697

**Michigan**

**BALANCE SHEET**  
**SPECIAL REVENUE FUNDS - BY CLASSIFICATION**  
 SEPTEMBER 30, 2004  
 (In Thousands)

	TRANSPORTATION RELATED	CONSERVATION, ENVIRONMENT, AND RECREATION RELATED	REGULATORY AND ADMINISTRATIVE RELATED	OTHER STATE FUNDS	TOTALS
<b>ASSETS</b>					
Current Assets:					
Cash	\$ 966	\$ 76	\$ -	\$ -	\$ 1,042
Equity in common cash	478,953	331,498	62,355	126,502	999,309
Taxes, interest, and penalties receivable	119,596	6,787	-	-	126,383
Amounts due from other funds	903,991	-	5,872	-	909,862
Amounts due from component units	1,204	8	-	-	1,213
Amounts due from federal agencies	156,655	507	10,131	-	167,293
Amounts due from local units	57,466	953	-	-	58,419
Inventories	5,921	146	-	-	6,067
Securities lending collateral	-	4,242	-	-	4,242
Other current assets	14,048	7,102	899	205,015	227,064
Total Current Assets	1,738,801	351,321	79,257	331,517	2,500,895
Taxes, interest, and penalties receivable	1,381	30	-	-	1,411
Advances to other funds	21,689	-	-	-	21,689
Amounts due from local units	42,720	3,550	-	-	46,270
Investments	-	64,953	-	-	64,953
Other noncurrent assets	3,675	1,539	-	1,772	6,985
Total Assets	\$ 1,808,265	\$ 421,393	\$ 79,257	\$ 333,289	\$ 2,642,204
<b>LIABILITIES AND FUND BALANCES</b>					
Current Liabilities:					
Warrants outstanding	\$ 17,902	\$ 1,104	\$ 956	\$ 40,922	\$ 60,884
Obligations under security lending	-	4,242	-	-	4,242
Accounts payable and other liabilities	481,668	56,503	14,461	75,039	627,671
Amounts due to other funds	91,437	6,630	6,765	19	104,851
Deferred revenue	50,339	1,463	4,134	203,573	259,509
Total Current Liabilities	641,346	69,942	26,317	319,553	1,057,158
Long-Term Liabilities:					
Advances from other funds	21,689	-	-	-	21,689
Deferred revenue	17,243	1,569	-	482	19,294
Total Liabilities	680,277	71,511	26,317	320,035	1,098,140
Fund Balances:					
Reserves For:					
Budgetary Carry-Forwards:					
Encumbrances	60,134	19,208	431	264	80,037
Restricted revenues	203,157	91,262	13,442	-	307,861
Multi-year projects	399,706	28,784	-	-	428,490
Construction and debt service	70,272	-	-	-	70,272
Revolving loan programs	28,940	20,502	-	-	49,442
Funds held as permanent investments	-	121,330	-	-	121,330
Noncurrent assets	28,683	-	-	1,290	29,973
Total Reserved	790,892	281,086	13,873	1,554	1,087,404
Unreserved	337,096	68,796	39,067	11,700	456,659
Total Fund Balances	1,127,988	349,881	52,940	13,254	1,544,064
Total Liabilities and Fund Balances	\$ 1,808,265	\$ 421,393	\$ 79,257	\$ 333,289	\$ 2,642,204

**Michigan**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**SPECIAL REVENUE FUNDS - BY CLASSIFICATION**  
FISCAL YEAR ENDED SEPTEMBER 30, 2004  
(In Thousands)

	TRANSPORTATION RELATED	CONSERVATION, ENVIRONMENT, AND RECREATION RELATED	REGULATORY AND ADMINISTRATIVE RELATED	OTHER STATE FUNDS	TOTALS
<b>REVENUES</b>					
Taxes	\$ 2,079,758	\$ 59,857	\$ -	\$ -	\$ 2,139,616
From federal agencies	941,219	1,642	120,896	-	1,063,757
From local agencies	130,262	-	-	-	130,262
From services	457	-	-	-	457
From licenses and permits	70,893	92,564	13,417	-	176,875
Miscellaneous	58,699	73,968	63,005	357,454	553,125
Total Revenues	3,281,288	228,032	197,318	357,454	4,064,091
<b>EXPENDITURES</b>					
Current:					
General government	-	326	15,910	87,523	103,758
Education	-	-	-	100,391	100,391
Family independence services	-	-	-	4	4
Conservation, environment, recreation, and agriculture	-	241,947	-	-	241,947
Labor, commerce, and regulatory	-	-	179,224	10,224	189,448
Health services	-	316	-	98,043	98,360
Transportation	2,211,490	-	-	-	2,211,490
Capital outlay	985,312	18,974	-	-	1,004,286
Debt Service:					
Capital lease payments	160	-	557	-	717
Total Expenditures	3,196,962	261,563	195,691	296,185	3,950,400
Excess of Revenues over (under) Expenditures	84,326	(33,531)	1,627	61,269	113,690
<b>OTHER FINANCING SOURCES (USES)</b>					
Bonds and notes issued	185,710	54,515	-	150,121	390,346
Premium on bond issuance	15,535	-	-	-	15,535
Proceeds from sale of capital assets	6,903	-	-	-	6,903
Transfers from other funds	1,046,843	40,448	7,765	1	1,095,057
Transfers to other funds	(1,180,237)	(91,235)	(11,223)	(221,750)	(1,504,444)
Total Other Financing Sources (Uses)	74,753	3,728	(3,458)	(71,627)	3,396
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	159,079	(29,803)	(1,830)	(10,358)	117,087
Fund Balances - Beginning of fiscal year	968,909	379,685	54,770	23,613	1,426,977
Fund Balances - End of fiscal year	\$ 1,127,988	\$ 349,881	\$ 52,940	\$ 13,254	\$ 1,544,064

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
SPECIAL REVENUE FUNDS - BY CLASSIFICATION**  
FISCAL YEAR ENDED SEPTEMBER 30, 2004  
(In Thousands)

<u>Statutory/Budgetary Basis</u>	TRANSPORTATION RELATED			CONSERVATION, ENVIRONMENT, AND RECREATION RELATED		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
<b>REVENUES AND OTHER SOURCES</b>						
Taxes	\$ 2,079,758	\$ 2,079,758	\$ -	\$ 282	\$ 282	\$ -
From federal agencies	724,369	724,369	-	1,642	1,642	-
From local agencies	56,093	56,093	-	-	-	-
From services	457	457	-	-	-	-
From licenses and permits	70,893	70,893	-	92,564	92,564	-
Miscellaneous	54,813	54,813	-	32,684	32,684	-
Proceeds from sale of capital assets	6,903	6,903	-	-	-	-
Transfers in	1,033,851	1,033,851	-	25,444	25,444	-
Total Revenues and Other Sources	4,027,137	4,027,137	-	152,616	152,616	-
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>						
Attorney General	-	-	-	-	-	-
Colleges and Universities Grants	-	-	-	-	-	-
Community Health	-	-	-	-	-	-
Education	-	-	-	-	-	-
Labor and Economic Growth	-	-	-	-	-	-
Natural Resources	-	-	-	194,053	183,943	10,109
Transportation	4,145,549	3,964,062	181,487	-	-	-
Treasury	-	-	-	7	7	-
Total Expenditures, Transfers Out, and Encumbrances	4,145,549	3,964,062	181,487	194,059	183,950	10,109
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (118,412)	63,075	\$ 181,487	\$ (41,443)	(31,334)	\$ 10,109
Reconciling Items:						
Encumbrances at September 30		60,134			16,545	
Funds not annually budgeted		35,870			(15,014)	
Net Reconciling Items		96,004			1,530	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		159,079			(29,803)	
<b>FUND BALANCES (GAAP BASIS)</b>						
Beginning balances		968,909			379,685	
Ending balances (GAAP Basis)		\$ 1,127,988			\$ 349,881	

# Michigan

REGULATORY AND ADMINISTRATIVE RELATED			OTHER STATE FUNDS			TOTALS		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,080,041	\$ 2,080,041	\$ -
120,896	120,896	-	-	-	-	846,907	846,907	-
-	-	-	-	-	-	56,093	56,093	-
-	-	-	-	-	-	457	457	-
13,417	13,417	-	-	-	-	176,875	176,875	-
36,831	36,831	-	272,118	272,118	-	396,446	396,446	-
-	-	-	-	-	-	6,903	6,903	-
7,765	7,765	-	1	1	-	1,067,061	1,067,061	-
178,910	178,910	-	272,119	272,119	-	4,630,782	4,630,782	-
-	-	-	352	328	24	352	328	24
-	-	-	92,633	88,063	4,570	92,633	88,063	4,570
-	-	-	98,043	98,043	-	98,043	98,043	-
-	-	-	16,740	16,317	423	16,740	16,317	423
154,113	150,448	3,665	10,399	10,399	-	164,511	160,846	3,665
-	-	-	-	-	-	194,053	183,943	10,109
-	-	-	-	-	-	4,145,549	3,964,062	181,487
24,310	24,286	25	67,492	66,130	1,362	91,809	90,422	1,387
178,423	174,733	3,690	285,659	279,279	6,379	4,803,690	4,602,025	201,665
<u>\$ 487</u>	<u>4,177</u>	<u>\$ 3,690</u>	<u>\$ (13,539)</u>	<u>(7,160)</u>	<u>\$ 6,379</u>	<u>\$ (172,908)</u>	<u>28,758</u>	<u>\$ 201,665</u>
	431			264			77,374	
	(6,438)			(3,462)			10,955	
	(6,007)			(3,198)			88,329	
	(1,830)			(10,358)			117,087	
	54,770			23,613			1,426,977	
	<u>\$ 52,940</u>			<u>\$ 13,254</u>			<u>\$ 1,544,064</u>	



## **SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED**

### **STATE AERONAUTICS FUND**

Established pursuant to P.A. 327 of 1945, as amended, this fund accounts for airport improvement projects. Financing consists primarily of aviation fuel taxes and federal and local contributions. Although subject to change in the future, annual appropriation acts have allowed any unobligated and unexpended balance at fiscal year-end to lapse and revert to the fund for appropriation in the following year.

### **STATE TRUNKLINE FUND**

Established pursuant to Section 11 of P.A. 51 of 1951, as amended, this fund accounts for highway construction and maintenance. Its annual budget is subject to legislative review and appropriation, but the Transportation Commission has significant discretion in determining the funding of individual projects. Financing consists primarily of federal aid, local participation, and transfers from the Michigan Transportation Fund. Expenditures and transfers are for administration, highway maintenance and construction, debt service, and various contractual obligations. Although subject to change in the future, annual appropriation acts have allowed for any fund balance not otherwise reserved at fiscal year-end to be reserved for road and bridge construction.

This fund also is used to record loans made to local units of government for reconstructing and resurfacing roadways. Activities of the Blue Water Bridge program, segregated as a separate fund within the accounting system, are also reported within the State Trunkline Fund. A portion of the receivables and payables between the State Trunkline Fund and the Blue Water Bridge Fund are classified as current and are presented as "Amounts due from other funds" and "Amounts due to other funds". The remainder is classified as long-term "Advances from other funds" and "Advances to other funds" because repayment will not occur within the next 12 months.

### **MICHIGAN TRANSPORTATION FUND**

Established pursuant to Section 10 of P.A. 51 of 1951, as amended, this fund accounts for the receipt and distribution of several tax revenues dedicated for highway purposes. Transfers are made to the General Fund, State Trunkline Fund, and the Comprehensive Transportation Fund. Expenditures include grants to counties, cities, and villages for highway purposes.

### **COMPREHENSIVE TRANSPORTATION FUND**

This fund operates under Section 10(b) of P.A. 51 of 1951, as amended, and accounts for the planning and development of public transportation systems within the State. Federal and local revenues, vehicle-related sales tax, and transfers from the Michigan Transportation Fund provide financing for expenditures. In accordance with statutory provisions, any unencumbered balance at fiscal year-end lapses and reverts to the fund for appropriation in the following year.

### **COMBINED STATE TRUNKLINE BOND PROCEEDS FUND**

Established pursuant to Section 18(b) of P.A. 51 of 1951, as amended, this fund accounts for the proceeds of State trunkline revenue dedicated bonds. These bonds are used in part to finance the costs of road and bridge construction.

### **COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND**

Established pursuant to Section 18(b) of P.A. 51 of 1951, as amended, this fund accounts for the proceeds of comprehensive transportation revenue dedicated bonds. These bonds are used in part to finance the costs of comprehensive transportation projects.

### **TRANSPORTATION RELATED TRUST FUNDS**

The transportation related trust funds reflects the activities of five sub-funds: the Special Federal Bridge Replacement Fund, the Federal County Road Fund, the Federal Urban Transportation System Fund, the Highway Topics and Safety Program Fund, and the Metropolitan Planning Fund. The Michigan Department of Transportation is recognized as the legal representative of the State, including all governmental subdivisions, in the administration of these programs. The financing accounted for in these funds consists primarily of local and federal matching funds with very little State funds. Financing provided prior to expenditures being incurred is recorded as deferred revenue and revenue is recognized as expenditures are made. As a result, the fund balances of these funds are usually zero.

# Michigan

**COMBINING BALANCE SHEET**  
**SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED**  
 SEPTEMBER 30, 2004  
 (In Thousands)

	STATE AERONAUTICS FUND	STATE TRUNKLINE FUND	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND
<b>ASSETS</b>				
Current Assets:				
Cash	\$ -	\$ 529	\$ -	\$ 12
Equity in common cash	19,343	-	81,974	41,852
Taxes, interest, and penalties receivable	752	-	118,843	-
Amounts due from other funds	-	785,593	106,785	11,612
Amounts due from component units	-	1,204	-	-
Amounts due from federal agencies	24,265	84,545	-	8,326
Amounts due from local units	18,877	21,958	-	905
Inventories	-	5,921	-	-
Other current assets	43	7,851	4,639	1,333
Total Current Assets	63,281	907,603	312,242	64,040
Taxes, interest, and penalties receivable	-	-	1,381	-
Advances to other funds	-	21,689	-	-
Amounts due from local units	650	35,881	-	6,189
Other noncurrent assets	-	1,908	-	1,766
Total Assets	\$ 63,931	\$ 967,081	\$ 313,623	\$ 71,995
<b>LIABILITIES AND FUND BALANCES</b>				
Current Liabilities:				
Warrants outstanding	\$ 927	\$ 12,648	\$ 3,549	\$ 302
Accounts payable and other liabilities	28,815	180,158	238,628	18,376
Amounts due to other funds	35	3,914	52,475	51
Deferred revenue	9,706	14,740	17,589	-
Total Current Liabilities	39,483	211,460	312,242	18,728
Long-Term Liabilities:				
Advances from other funds	-	21,689	-	-
Deferred revenue	-	14,095	1,381	1,766
Total Liabilities	39,483	247,245	313,623	20,495
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	1,739	27,121	-	31,274
Restricted revenues	-	194,967	-	8,190
Multi-year projects	15,748	383,394	-	563
Construction and debt service	-	70,272	-	-
Revolving loan programs	2,200	15,400	-	11,340
Noncurrent assets	-	28,683	-	-
Total Reserved	19,688	719,837	-	51,367
Unreserved	4,760	-	-	133
Total Fund Balances	24,448	719,837	-	51,500
Total Liabilities and Fund Balances	\$ 63,931	\$ 967,081	\$ 313,623	\$ 71,995

Michigan

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	TRANSPORTATION RELATED TRUST FUNDS	TOTALS
\$ 16	\$ -	\$ 409	\$ 966
250,759	85,026	-	478,953
-	-	-	119,596
-	-	-	903,991
-	-	-	1,204
3,265	-	36,254	156,655
774	-	14,952	57,466
-	-	-	5,921
13	-	169	14,048
<u>254,826</u>	<u>85,026</u>	<u>51,783</u>	<u>1,738,801</u>
-	-	-	1,381
-	-	-	21,689
-	-	-	42,720
-	-	-	3,675
<u>\$ 254,826</u>	<u>\$ 85,026</u>	<u>\$ 51,783</u>	<u>\$ 1,808,265</u>
\$ 88	\$ -	\$ 387	\$ 17,902
4,625	2,253	8,813	481,668
-	-	34,962	91,437
682	-	7,621	50,339
<u>5,396</u>	<u>2,253</u>	<u>51,783</u>	<u>641,346</u>
-	-	-	21,689
-	-	-	17,243
<u>5,396</u>	<u>2,253</u>	<u>51,783</u>	<u>680,277</u>
-	-	-	60,134
-	-	-	203,157
-	-	-	399,706
-	-	-	70,272
-	-	-	28,940
-	-	-	28,683
<u>-</u>	<u>-</u>	<u>-</u>	<u>790,892</u>
<u>249,430</u>	<u>82,773</u>	<u>-</u>	<u>337,096</u>
<u>249,430</u>	<u>82,773</u>	<u>-</u>	<u>1,127,988</u>
<u>\$ 254,826</u>	<u>\$ 85,026</u>	<u>\$ 51,783</u>	<u>\$ 1,808,265</u>

**Michigan**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED**  
FISCAL YEAR ENDED SEPTEMBER 30, 2004  
(In Thousands)

	STATE AERONAUTICS FUND	STATE TRUNKLINE FUND	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND
<b>REVENUES</b>				
Taxes	\$ 7,721	\$ -	\$ 2,007,077	\$ 64,960
From federal agencies	107,205	587,495	-	29,670
From local agencies	17,501	38,588	-	4
From services	440	16	-	-
From licenses and permits	314	18,934	51,355	290
Miscellaneous	1,725	45,101	3,124	4,864
Total Revenues	134,906	690,134	2,061,556	99,787
<b>EXPENDITURES</b>				
Current:				
Transportation	136,873	514,668	1,017,320	254,172
Capital outlay	-	812,898	-	-
Debt service:				
Capital lease payments	-	160	-	-
Total Expenditures	136,873	1,327,726	1,017,320	254,172
Excess of Revenues over (under) Expenditures	(1,968)	(637,592)	1,044,236	(154,385)
<b>OTHER FINANCING SOURCES (USES)</b>				
Bonds and notes issued	-	-	-	-
Premium on bond issuance	-	-	-	-
Proceeds from sale of capital assets	-	6,903	-	-
Transfers from other funds	9,674	853,008	3,027	168,141
Transfers to other funds	(1,838)	(89,448)	(1,047,263)	(29,287)
Total Other Financing Sources (Uses)	7,836	770,463	(1,044,236)	138,855
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	5,868	132,871	-	(15,530)
Fund Balances - Beginning of fiscal year	18,580	586,965	-	67,030
Fund Balances - End of fiscal year	\$ 24,448	\$ 719,837	\$ -	\$ 51,500

# Michigan

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	TRANSPORTATION RELATED TRUST FUNDS	TOTALS
\$ -	\$ -	\$ -	\$ 2,079,758
29,060	-	187,790	941,219
2,975	-	71,194	130,262
-	-	-	457
-	-	-	70,893
2,479	1,164	242	58,699
<u>34,514</u>	<u>1,164</u>	<u>259,226</u>	<u>3,281,288</u>
-	22,950	265,507	2,211,490
172,414	-	-	985,312
-	-	-	160
<u>172,414</u>	<u>22,950</u>	<u>265,507</u>	<u>3,196,962</u>
<u>(137,900)</u>	<u>(21,785)</u>	<u>(6,281)</u>	<u>84,326</u>
185,710	-	-	185,710
15,535	-	-	15,535
-	-	-	6,903
5,948	-	7,044	1,046,843
(11,386)	(251)	(763)	(1,180,237)
<u>195,806</u>	<u>(251)</u>	<u>6,281</u>	<u>74,753</u>
57,906	(22,036)	-	159,079
<u>191,524</u>	<u>104,809</u>	<u>-</u>	<u>968,909</u>
<u>\$ 249,430</u>	<u>\$ 82,773</u>	<u>\$ -</u>	<u>\$ 1,127,988</u>

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED**  
FISCAL YEAR ENDED SEPTEMBER 30, 2004  
(In Thousands)

<u>Statutory/Budgetary Basis</u>	STATE AERONAUTICS FUND		
	BUDGET	ACTUAL	VARIANCE
<b>REVENUES AND OTHER SOURCES</b>			
Taxes	\$ 7,721	\$ 7,721	\$ -
From federal agencies	107,205	107,205	-
From local agencies	17,501	17,501	-
From services	440	440	-
From licenses and permits	314	314	-
Miscellaneous	1,725	1,725	-
Proceeds from sale of capital assets	-	-	-
Transfers in	9,674	9,674	-
Total Revenues and Other Sources	144,580	144,580	-
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>			
Transportation	141,869	140,451	1,418
Total Expenditures, Transfers Out, and Encumbrances	141,869	140,451	1,418
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ 2,710	4,129	\$ 1,418
Reconciling Items:			
Encumbrances at September 30		1,739	
Funds not annually budgeted		-	
Net Reconciling Items		1,739	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		5,868	
<b>FUND BALANCES (GAAP BASIS)</b>			
Beginning balances		18,580	
Ending balances (GAAP Basis)		\$ 24,448	

# Michigan

STATE TRUNKLINE FUND			MICHIGAN TRANSPORTATION FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ 2,007,077	\$ 2,007,077	\$ -
587,495	587,495	-	-	-	-
38,588	38,588	-	-	-	-
16	16	-	-	-	-
18,934	18,934	-	51,355	51,355	-
45,101	45,101	-	3,124	3,124	-
6,903	6,903	-	-	-	-
853,008	853,008	-	3,027	3,027	-
1,550,046	1,550,046	-	2,064,583	2,064,583	-
1,581,424	1,444,295	137,130	2,094,261	2,064,583	29,678
1,581,424	1,444,295	137,130	2,094,261	2,064,583	29,678
<u>\$ (31,379)</u>	<u>105,751</u>	<u>\$ 137,130</u>	<u>\$ (29,678)</u>	<u>-</u>	<u>\$ 29,678</u>
	27,121			-	
	-			-	
	27,121			-	
	132,871			-	
	586,965			-	
	<u>\$ 719,837</u>			<u>\$ -</u>	

This schedule continued on next page.

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED (Continued)**  
FISCAL YEAR ENDED SEPTEMBER 30, 2004  
(In Thousands)

<u>Statutory/Budgetary Basis</u>	COMPREHENSIVE TRANSPORTATION FUND		
	BUDGET	ACTUAL	VARIANCE
<b>REVENUES AND OTHER SOURCES</b>			
Taxes	\$ 64,960	\$ 64,960	\$ -
From federal agencies	29,670	29,670	-
From local agencies	4	4	-
From services	-	-	-
From licenses and permits	290	290	-
Miscellaneous	4,864	4,864	-
Proceeds from sale of capital assets	-	-	-
Transfers in	168,141	168,141	-
Total Revenues and Other Sources	267,928	267,928	-
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>			
Transportation	327,994	314,733	13,261
Total Expenditures, Transfers Out, and Encumbrances	327,994	314,733	13,261
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (60,065)	(46,804)	\$ 13,261
Reconciling Items:			
Encumbrances at September 30		31,274	
Funds not annually budgeted		-	
Net Reconciling Items		31,274	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		(15,530)	
<b>FUND BALANCES (GAAP BASIS)</b>			
Beginning balances		67,030	
Ending balances (GAAP Basis)		\$ 51,500	

# Michigan

## FUNDS NOT ANNUALLY BUDGETED

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	TRANSPORTATION RELATED TRUST FUNDS	TOTALS		
ACTUAL	ACTUAL	ACTUAL	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ 2,079,758	\$ 2,079,758	\$ -
-	-	-	724,369	724,369	-
-	-	-	56,093	56,093	-
-	-	-	457	457	-
-	-	-	70,893	70,893	-
-	-	-	54,813	54,813	-
-	-	-	6,903	6,903	-
-	-	-	1,033,851	1,033,851	-
-	-	-	4,027,137	4,027,137	-
-	-	-	4,145,549	3,964,062	181,487
-	-	-	4,145,549	3,964,062	181,487
-	-	-	<u>\$ (118,412)</u>	63,075	<u>\$ 181,487</u>
-	-	-		60,134	
57,906	(22,036)	-		35,870	
57,906	(22,036)	-		96,004	
57,906	(22,036)	-		159,079	
191,524	104,809	-		968,909	
<u>\$ 249,430</u>	<u>\$ 82,773</u>	<u>\$ -</u>		<u>\$ 1,127,988</u>	

## SPECIAL REVENUE FUNDS – CONSERVATION, ENVIRONMENT, AND RECREATION RELATED

### GAME AND FISH PROTECTION FUND

Established in 1921, this fund currently operates under Part 435 of P.A. 451 of 1994, as amended, and is financed principally by the sale of hunting and fishing licenses. The license fees are set by statute and their purpose is to support the conservation program for preservation and control of fish and wildlife. The fund also receives funding from the Game and Fish Protection Trust Fund. The fund provides financial support for statewide hunting and fishing programs, including resource management, research, enforcement of hunting and fishing laws, and acquisition of lands to be used for hunting and fishing purposes.

### MICHIGAN STATE WATERWAYS FUND

Established in 1947, this fund currently operates under Part 781 of P.A. 451 of 1994, as amended. The fund receives portions of watercraft registration fees and gasoline taxes, some of which are collected by other State agencies and transferred to this fund. The fund provides for improvement of lake harbors and inland waterways; construction, operation, and maintenance of recreational boating facilities; property acquisition; and administration.

In fiscal year 2002-2003, P.A. 746 of 2002, section 1602 required the transfer of \$7.8 million from this fund to the General Fund. Section 1602(3) states that "It is the intent of the legislature that in the future the general fund reimburse the state waterways fund." No receivable is recorded in this fund for this commitment because there is no repayment schedule and the repayment is considered long-term and budgetary in nature.

### MARINE SAFETY FUND

Established in 1967, this fund currently operates under Part 801 of P.A. 451 of 1994, as amended. The fund is financed principally by 49% of watercraft registration fees imposed by this act. The fund provides for water safety education programs, law enforcement, and regulation of watercraft on the waters of this State.

### GAME AND FISH PROTECTION TRUST FUND

This fund was established in 1986 and presently operates under Part 437 of P.A. 451 of 1994, as amended, to restrict certain assets for the purpose of generating interest and earnings for transfer to the Game and Fish Protection Fund. In addition, the Legislature may appropriate up to \$6 million annually for use by the Game and Fish Protection Fund. Mineral royalties from lands acquired by the Game and Fish Protection Fund; direct sale proceeds; and other revenues, which, by statute, are retained for permanent investment, provide additional investment funding.

### STATE PARK IMPROVEMENT FUND

Established in 1960, this fund currently operates under Part 741 of P.A. 451 of 1994, as amended. The fund is primarily financed by State park use and concession fees and motor vehicle permit fees necessary for entry by motor vehicles into designated State parks. These fees are the primary funding source for the operation, maintenance, debt service, and improvements of the State Park system. Revenues of this fund are pledged as necessary for repayment of State Park Gross Revenue Bonds.

### COMBINED RECREATION BOND FUND - LOCAL PROJECTS

Established in 1988, this fund presently operates under Parts 196 and 715 of P.A. 451 of 1994, as amended. The residual balances in this fund reflect proceeds and investment earnings remaining from two bond packages: \$70 million of general obligation bonds approved by voters in November 1988, as part of a \$140 million bond package for financing state and local public recreation projects, and \$50 million of general obligation bonds approved by voters in November of 1998, as part of a \$675 million bond package known as the "Clean Michigan Initiative." Proceeds from the 1988 bond package provide grants and loans to local units of government in the amounts of \$65 million for local recreation projects and \$5 million to discourage development of open space and underdeveloped lands. Proceeds from the 1998 bond package also provide grants to local units of government for local recreation projects pursuant to Part 716 of P.A. 451 of 1994.

### COMBINED ENVIRONMENTAL PROTECTION BOND FUND

Established by P.A. 328 of 1988, this fund accounts for the proceeds of \$660 million of general obligation bonds approved by Michigan voters in November 1988 to finance environmental protection programs. This approval was obtained under the general authority of Article 9, Section 15, of the 1963 State Constitution. Public Act 328 of 1988 specifies that not more than \$425 million of the bond proceeds be available to clean up sites of toxic and other environmental contamination; not more than \$150 million be available for solid waste projects; not more than \$60 million be available to capitalize the State Water Pollution Control Loan Fund; and not more than \$25 million be available to fund Michigan's participation in a regional Great Lakes Protection Fund.

Public Act 284 of 1998 expanded this fund to account for the proceeds of \$570 million of general obligation bonds approved by Michigan voters in November 1998. Public Act 288 of 1998 directs that not more than \$335 million be used for environmental response activities; not more than \$50 million for waterfront improvements; not more than \$25 million for remediation of contaminated lake and river sediments; not more than \$50 million for nonpoint source pollution prevention and control projects or wellhead protection projects; not more than \$90 million for water quality monitoring and water resources protection and pollution control activities; and not more than \$20 million for pollution prevention programs.

#### MICHIGAN NONGAME FISH AND WILDLIFE FUND

Established in 1983, the fund currently operates under Part 439 of P.A. 451 of 1994, as amended. Fund revenues are used to finance research and management of nongame fish and wildlife, designated endangered species, and designated plant species of this State. The fund may receive transfers from other funds, donations, investment income, and revenue from specialty license plate sales.

#### FOREST DEVELOPMENT FUND

This fund was established in 1993, along with the Michigan Forest Finance Authority, and presently operates under Part 505 of P.A. 451 of 1994, as amended. The Authority is authorized to acquire standing timber, timber cutting rights, and the State's interest in contracts granting cutting rights on State tax reverted lands and on other lands in the State forest system. Revenues are derived from the sale of forest products, and are pledged to provide debt service on any bonds or notes that might be issued by the Authority. Revenues not used for debt service are major funding sources for the Forest Management Division and are used for forest management operations and practices. The Authority may, but thus far has not, issued bonds.

#### MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FUND

The Michigan Underground Storage Tank Financial Assurance Fund (MUSTFA) was established in P.A. 518 of 1988 to assist certain owners and operators of underground storage tank systems in meeting their financial responsibility requirements provided for in the Solid Waste Disposal Act. The Department of Environmental Quality and an eleven-member advisory board administer the fund.

The primary source of revenues is an environmental protection regulatory fee of 7/8 cent per gallon imposed on all refined petroleum products sold for resale.

#### BOTTLE DEPOSITS FUND

This fund was created in P.A. 384 of 1996 to provide for the disposition of unredeemed bottle deposits. The Department of Treasury and the Department of Environmental Quality jointly administer the fund. The law mandates that an annual distribution of the funds be made as follows: 25% returned to the dealers and 75% to fund several sub-funds.

The 75% distribution to the Department of Environmental Quality is initially deposited into the Cleanup and Redevelopment Trust Sub-Fund (CRTF), and if not further distributed, remains there until the principal amount reaches \$200 million. Of funds received annually by the CRTF, 80% is allocated to the Cleanup and Redevelopment Sub-Fund (CRF) and 10% to the Community Pollution Prevention Sub-Fund (CPPF).

Public Act 380 of 1996 moved the former Environmental Response Fund (ERF) to a sub-fund of the CRF. The law mandates that proceeds of all cost recovery actions taken and settlements entered into pursuant to the ERF (excluding natural resource damages) by the department or the Attorney General, or both, shall be credited to the ERF.

**COMBINING BALANCE SHEET**  
**SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED**  
 SEPTEMBER 30, 2004  
 (In Thousands)

	GAME AND FISH PROTECTION FUND	MICHIGAN STATE WATERWAYS FUND	MARINE SAFETY FUND	GAME AND FISH PROTECTION TRUST FUND	STATE PARK IMPROVEMENT FUND
<b>ASSETS</b>					
Current Assets:					
Cash	\$ 4	\$ -	\$ -	\$ -	\$ 71
Equity in common cash	32,186	39,893	2,160	48,216	7,939
Taxes, interest, and penalties receivable	-	233	-	-	-
Amounts due from component units	-	-	-	-	-
Amounts due from federal agencies	248	-	259	-	-
Amounts due from local units	-	-	-	-	-
Inventories	-	146	-	-	-
Securities lending collateral	162	-	-	4,080	-
Other current assets	3,454	9	-	784	29
Total Current Assets	36,055	40,283	2,419	53,080	8,039
Taxes, interest, and penalties receivable	-	30	-	-	-
Amounts due from local units	-	-	-	-	-
Investments	1,542	-	-	59,103	-
Other noncurrent assets	-	-	-	-	-
Total Assets	\$ 37,597	\$ 40,312	\$ 2,419	\$ 112,183	\$ 8,039
<b>LIABILITIES AND FUND BALANCES</b>					
Current Liabilities:					
Warrants outstanding	\$ 197	\$ 125	\$ 3	\$ -	\$ 121
Obligations under security lending	162	-	-	4,080	-
Accounts payable and other liabilities	7,384	2,022	1,895	9,993	1,497
Amounts due to other funds	400	65	-	-	226
Deferred revenue	-	-	-	-	391
Total Current Liabilities	8,144	2,213	1,898	14,073	2,234
Long-Term Liabilities:					
Deferred revenue	-	30	-	-	-
Total Liabilities	8,144	2,242	1,898	14,073	2,234
Fund Balances:					
Reserves for:					
Budgetary Carry-Forwards:					
Encumbrances	2,803	11,169	-	-	663
Restricted revenues	12,666	2,172	-	-	800
Multi-year projects	2,285	19,061	-	-	639
Revolving loan programs	-	-	-	-	-
Funds held as permanent investments	1,781	-	-	92,111	-
Total Reserved	19,535	32,402	-	92,111	2,102
Unreserved	9,918	5,668	521	6,000	3,704
Total Fund Balances	29,453	38,070	521	98,111	5,805
Total Liabilities and Fund Balances	\$ 37,597	\$ 40,312	\$ 2,419	\$ 112,183	\$ 8,039

Michigan

COMBINED RECREATION BOND FUND- LOCAL PROJECTS	COMBINED ENVIRONMENTAL PROTECTION BOND FUND	MICHIGAN NONGAME FISH AND WILDLIFE FUND	FOREST DEVELOPMENT FUND	MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FUND	BOTTLE DEPOSITS FUND	TOTALS
\$ -	\$ -	\$ -	\$ 1	\$ -	\$ -	\$ 76
4,154	54,109	2,185	13,048	1,814	125,793	331,498
-	-	-	-	6,554	-	6,787
-	8	-	-	-	-	8
-	-	-	-	-	-	507
-	515	-	-	-	438	953
-	-	-	-	-	-	146
-	-	-	-	-	-	4,242
-	8	34	68	-	2,717	7,102
4,154	54,640	2,219	13,116	8,367	128,948	351,321
-	-	-	-	-	-	30
-	-	-	-	-	3,550	3,550
-	-	4,308	-	-	-	64,953
-	-	-	-	-	1,539	1,539
\$ 4,154	\$ 54,640	\$ 6,527	\$ 13,116	\$ 8,368	\$ 134,036	\$ 421,393
\$ 69	\$ 375	\$ 29	\$ 76	\$ 3	\$ 107	\$ 1,104
-	-	-	-	-	-	4,242
1,150	23,363	46	1,754	35	7,365	56,503
2	20	2	113	5,690	112	6,630
-	-	-	-	864	209	1,463
1,221	23,758	76	1,943	6,592	7,793	69,942
-	-	-	-	-	1,539	1,569
1,221	23,758	76	1,943	6,592	9,331	71,511
-	-	46	1,863	-	2,663	19,208
-	-	-	-	1,253	74,370	91,262
-	-	-	1,029	-	5,770	28,784
-	-	-	-	-	20,502	20,502
-	-	6,038	-	-	21,400	121,330
-	-	6,084	2,893	1,253	124,705	281,086
2,934	30,883	366	8,280	522	-	68,796
2,934	30,883	6,451	11,173	1,775	124,705	349,881
\$ 4,154	\$ 54,640	\$ 6,527	\$ 13,116	\$ 8,368	\$ 134,036	\$ 421,393

**Michigan**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED**  
FISCAL YEAR ENDED SEPTEMBER 30, 2004  
(In Thousands)

	GAME AND FISH PROTECTION FUND	MICHIGAN STATE WATERWAYS FUND	MARINE SAFETY FUND	GAME AND FISH PROTECTION TRUST FUND	STATE PARK IMPROVEMENT FUND
<b>REVENUES</b>					
Taxes	\$ -	\$ 282	\$ -	\$ -	\$ -
From federal agencies	1,332	-	259	-	-
From licenses and permits	48,301	6,633	4,727	-	32,899
Miscellaneous	1,928	1,492	137	13,612	1,136
Total Revenues	51,561	8,407	5,123	13,612	34,035
<b>EXPENDITURES</b>					
Current:					
General government	2	-	-	163	-
Conservation, environment, recreation, and agriculture	60,609	23,254	4,333	-	32,207
Health services	-	-	-	-	-
Capital outlay	5,214	9,207	-	-	4,069
Total Expenditures	65,824	32,461	4,333	163	36,277
Excess of Revenues over (under) Expenditures	(14,264)	(24,054)	791	13,449	(2,241)
<b>OTHER FINANCING SOURCES (USES)</b>					
Bonds and notes issued	-	-	-	-	-
Transfers from other funds	10,696	14,748	-	-	-
Transfers to other funds	(1,608)	(386)	(1,128)	(10,706)	(1,269)
Total Other Financing Sources (Uses)	9,088	14,362	(1,128)	(10,706)	(1,269)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(5,176)	(9,692)	(337)	2,743	(3,510)
Fund Balances - Beginning of fiscal year	34,629	47,761	859	95,368	9,316
Fund Balances - End of fiscal year	\$ 29,453	\$ 38,070	\$ 521	\$ 98,111	\$ 5,805

# Michigan

COMBINED RECREATION BOND FUND- LOCAL PROJECTS	COMBINED ENVIRONMENTAL PROTECTION BOND FUND	MICHIGAN NONGAME FISH AND WILDLIFE FUND	FOREST DEVELOPMENT FUND	MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FUND	BOTTLE DEPOSITS FUND	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ 59,575	\$ -	\$ 59,857
-	-	1	51	-	-	1,642
-	-	4	1	-	-	92,564
90	4,016	511	27,480	8	23,559	73,968
90	4,016	515	27,531	59,583	23,559	228,032
-	-	5	-	156	-	326
2,934	60,804	563	22,231	1	35,012	241,947
-	316	-	-	-	-	316
-	-	-	484	-	-	18,974
2,934	61,120	568	22,716	157	35,012	261,563
(2,844)	(57,104)	(53)	4,816	59,426	(11,454)	(33,531)
-	54,515	-	-	-	-	54,515
-	1	-	-	1	15,002	40,448
(564)	(15,020)	(3)	(834)	(59,575)	(143)	(91,235)
(564)	39,496	(3)	(834)	(59,574)	14,859	3,728
(3,407)	(17,608)	(56)	3,982	(148)	3,406	(29,803)
6,341	48,490	6,507	7,191	1,923	121,300	379,685
\$ 2,934	\$ 30,883	\$ 6,451	\$ 11,173	\$ 1,775	\$ 124,705	\$ 349,881

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED**  
FISCAL YEAR ENDED SEPTEMBER 30, 2004  
(In Thousands)

<u>Statutory/Budgetary Basis</u>	<u>GAME AND FISH PROTECTION FUND</u>			<u>MICHIGAN STATE WATERWAYS FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES AND OTHER SOURCES</b>						
Taxes	\$ -	\$ -	\$ -	\$ 282	\$ 282	\$ -
From federal agencies	1,332	1,332	-	-	-	-
From licenses and permits	48,301	48,301	-	6,633	6,633	-
Miscellaneous	1,928	1,928	-	1,492	1,492	-
Transfers in	10,696	10,696	-	14,748	14,748	-
Total Revenues and Other Sources	<u>62,257</u>	<u>62,257</u>	<u>-</u>	<u>23,155</u>	<u>23,155</u>	<u>-</u>
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>						
Natural Resources	73,604	70,234	3,370	48,017	44,016	4,001
Treasury	<u>2</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures, Transfers Out and Encumbrances	<u>73,606</u>	<u>70,236</u>	<u>3,370</u>	<u>48,017</u>	<u>44,016</u>	<u>4,001</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (11,349)</u>	<u>(7,979)</u>	<u>\$ 3,370</u>	<u>\$ (24,862)</u>	<u>(20,861)</u>	<u>\$ 4,001</u>
Reconciling Items:						
Encumbrances at September 30		2,803			11,169	
Funds not annually budgeted		<u>-</u>			<u>-</u>	
Net Reconciling Items		<u>2,803</u>			<u>11,169</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>(5,176)</u>			<u>(9,692)</u>	
<b>FUND BALANCES (GAAP BASIS)</b>						
Beginning balances		<u>34,629</u>			<u>47,761</u>	
Ending balances (GAAP Basis)		<u>\$ 29,453</u>			<u>\$ 38,070</u>	

# Michigan

MARINE SAFETY FUND			STATE PARK IMPROVEMENT FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
259	259	-	-	-	-
4,727	4,727	-	32,899	32,899	-
137	137	-	1,136	1,136	-
-	-	-	-	-	-
5,123	5,123	-	34,035	34,035	-
5,757	5,461	296	38,701	38,208	493
-	-	-	-	-	-
5,757	5,461	296	38,701	38,208	493
\$ (634)	(337)	\$ 296	\$ (4,666)	(4,173)	\$ 493
-	-	-	663	-	-
-	-	-	663	-	-
(337)	-	-	(3,510)	-	-
859	-	-	9,316	-	-
\$ 521	-	-	\$ 5,805	-	-

This schedule continued on next page.

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED (Continued)**  
FISCAL YEAR ENDED SEPTEMBER 30, 2004  
(In Thousands)

<u>Statutory/Budgetary Basis</u>	MICHIGAN NONGAME FISH AND WILDLIFE FUND			FOREST DEVELOPMENT FUND		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES AND OTHER SOURCES</b>						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
From federal agencies	1	1	-	51	51	-
From licenses and permits	4	4	-	1	1	-
Miscellaneous	511	511	-	27,480	27,480	-
Transfers in	-	-	-	-	-	-
Total Revenues and Other Sources	<u>515</u>	<u>515</u>	<u>-</u>	<u>27,531</u>	<u>27,531</u>	<u>-</u>
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>						
Natural Resources	623	612	10	27,351	25,413	1,938
Treasury	<u>5</u>	<u>5</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures, Transfers Out and Encumbrances	<u>628</u>	<u>617</u>	<u>10</u>	<u>27,351</u>	<u>25,413</u>	<u>1,938</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (113)</u>	<u>(102)</u>	<u>\$ 10</u>	<u>\$ 181</u>	<u>2,119</u>	<u>\$ 1,938</u>
Reconciling Items:						
Encumbrances at September 30		46			1,863	
Funds not annually budgeted		<u>-</u>			<u>-</u>	
Net Reconciling Items		<u>46</u>			<u>1,863</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>(56)</u>			<u>3,982</u>	
<b>FUND BALANCES (GAAP BASIS)</b>						
Beginning balances		<u>6,507</u>			<u>7,191</u>	
Ending balances (GAAP Basis)		<u>\$ 6,451</u>			<u>\$ 11,173</u>	

FUNDS NOT ANNUALLY BUDGETED

GAME AND FISH PROTECTION TRUST FUND	COMBINED RECREATION BOND FUND- LOCAL PROJECTS	COMBINED ENVIRONMENTAL PROTECTION BOND FUND	MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FUND	BOTTLE DEPOSITS FUND	TOTALS		
ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 282	\$ 282	\$ -
-	-	-	-	-	1,642	1,642	-
-	-	-	-	-	92,564	92,564	-
-	-	-	-	-	32,684	32,684	-
-	-	-	-	-	25,444	25,444	-
-	-	-	-	-	152,616	152,616	-
-	-	-	-	-	194,053	183,943	10,109
-	-	-	-	-	7	7	-
-	-	-	-	-	194,059	183,950	10,109
-	-	-	-	-	<u>\$ (41,443)</u>	<u>(31,334)</u>	<u>\$ 10,109</u>
-	-	-	-	-		16,545	
2,743	(3,407)	(17,608)	(148)	3,406		(15,014)	
2,743	(3,407)	(17,608)	(148)	3,406		1,530	
2,743	(3,407)	(17,608)	(148)	3,406		(29,803)	
95,368	6,341	48,490	1,923	121,300		379,685	
<u>\$ 98,111</u>	<u>\$ 2,934</u>	<u>\$ 30,883</u>	<u>\$ 1,775</u>	<u>\$ 124,705</u>		<u>\$ 349,881</u>	



## **SPECIAL REVENUE FUNDS – REGULATORY AND ADMINISTRATIVE RELATED**

### **MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND**

Public Act 1 of 1936 (Extra Session) created this fund to account for administrative costs of the Bureau of Worker's and Unemployment Compensation, which is administered by the Department of Labor and Economic Growth. The fund derives most of its revenue from federal grants. It also receives transfers from the Michigan Employment Security Act Contingent Fund (reported as part of the Michigan Unemployment Compensation Funds, an enterprise fund). Expenditures for administration are subject to legislative appropriation.

Unemployment benefit payments to individuals are made directly from funds accumulated from employer premiums. These activities are reported in the Michigan Unemployment Compensation Funds.

### **SAFETY EDUCATION AND TRAINING FUND**

Public Act 154 of 1974, as amended, imposes an annual levy on each insurance carrier licensed to write workers' disability compensation business in the State and on each self-insured employer. Public Act 24 of 1977 established the Safety Education and Training Fund to receive these assessments for support of the Department of Labor and Economic Growth's Consultation Education and Training Division.

### **STATE CONSTRUCTION CODE FUND**

Public Act 230 of 1972, as amended, created the State Construction Code Fund. Fees received for building permit applications and other funds collected under this act are appropriated by the Legislature for the operation of the Department of Labor and Economic Growth's Bureau of Construction Codes and Fire Safety and related indirect overhead expenditures.

### **HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND**

Established by P.A. 497 of 1980, the Homeowner Construction Lien Recovery Fund allows contractors, subcontractors, suppliers, and laborers to collect payments for work done if they have not been paid, despite filing a residential lien. The fund is self-sustaining and is financed by fees assessed on builders, electrical and plumbing contractors, and laborers.

### **STATE CASINO GAMING FUND**

Created by P.A. 69 of 1997, this fund provides the licensing, regulation, and control of casino gaming activities in Michigan. The five-member gaming control board is vested with the authority for licensing, regulating, and controlling casino gaming operations; manufacturers and distributors of gaming equipment and supplies; and persons who participate in gaming. Activities financed by casino gaming revenue are legally restricted for specific purposes.

### **SECOND INJURY FUND**

Public Act 317 of 1969, as amended, created the Second Injury Fund to insure carriers and self-insured employers against certain workers' compensation losses. The administrator, appointed by the fund's Board of Trustees, supervises the fund. The fund's revenue consists of assessments, calculated under provisions of the act, which are assessed to insurance carriers and self-insured employers licensed or authorized in Michigan.

### **SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND**

Established by P.A. 317 of 1969, as amended, the Silicosis, Dust Disease, and Logging Industry Compensation Fund reimburses insurance carriers who pay benefits to employees injured from certain dust diseases, and employees who have sustained personal injury or death while being employed in the logging industry. Revenues are generated through annual assessments of insurance carriers.

### **SELF-INSURERS' SECURITY FUND**

Established by P.A. 317 of 1969, as amended, the Self-Insurers' Security Fund pays workers' compensation benefits to injured employees of insolvent, private self-insured employers. Revenues are generated through annual assessments of insurance carriers.

Funds held in trust per court orders to pay obligations due under the Michigan Workers' Disability Compensation Act are reported as liabilities of this fund.

### **UTILITY CONSUMER REPRESENTATION FUND**

Established by P.A. 304 of 1982, as amended, the Utility Consumer Representation Fund provides funding, on behalf of residential gas, fuel, and electric customers, for energy cost recovery hearings before the Michigan Public Service Commission. Revenues are generated through annual assessments of regulated utility companies.

**Michigan**

**COMBINING BALANCE SHEET**  
**SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED**  
 SEPTEMBER 30, 2004  
 (In Thousands)

	MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND	SAFETY EDUCATION AND TRAINING FUND	STATE CONSTRUCTION CODE FUND	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND
<b>ASSETS</b>				
Current Assets:				
Equity in common cash	\$ -	\$ 5,493	\$ 8,522	\$ 712
Amounts due from other funds	-	-	-	-
Amounts due from federal agencies	10,131	-	-	-
Other current assets	48	5	135	-
Total Current Assets	<u>10,179</u>	<u>5,498</u>	<u>8,657</u>	<u>712</u>
Total Assets	<u>\$ 10,179</u>	<u>\$ 5,498</u>	<u>\$ 8,657</u>	<u>\$ 712</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Current Liabilities:				
Warrants outstanding	\$ 169	\$ 10	\$ 11	\$ 18
Accounts payable and other liabilities	3,439	170	344	78
Amounts due to other funds	6,571	31	89	1
Deferred revenue	-	-	-	-
Total Current Liabilities	<u>10,179</u>	<u>211</u>	<u>444</u>	<u>96</u>
Total Liabilities	<u>10,179</u>	<u>211</u>	<u>444</u>	<u>96</u>
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	-	403	27	-
Restricted revenues	-	-	-	-
Total Reserved	<u>-</u>	<u>403</u>	<u>27</u>	<u>-</u>
Unreserved	<u>-</u>	<u>4,884</u>	<u>8,187</u>	<u>615</u>
Total Fund Balances	<u>-</u>	<u>5,287</u>	<u>8,213</u>	<u>616</u>
Total Liabilities and Fund Balances	<u>\$ 10,179</u>	<u>\$ 5,498</u>	<u>\$ 8,657</u>	<u>\$ 712</u>

**Michigan**

<u>STATE CASINO GAMING FUND</u>	<u>SECOND INJURY FUND</u>	<u>SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND</u>	<u>SELF-INSURERS' SECURITY FUND</u>	<u>UTILITY CONSUMER REPRESENTATION FUND</u>	<u>TOTALS</u>
14,884	\$ 11,956	\$ 3,155	\$ 14,505	\$ 3,128	\$ 62,355
-	5,872	-	-	-	5,872
-	-	-	-	-	10,131
102	365	3	241	-	899
<u>14,985</u>	<u>18,193</u>	<u>3,158</u>	<u>14,746</u>	<u>3,128</u>	<u>79,257</u>
<u>\$ 14,985</u>	<u>\$ 18,193</u>	<u>\$ 3,158</u>	<u>\$ 14,746</u>	<u>\$ 3,128</u>	<u>\$ 79,257</u>
\$ 11	\$ 220	\$ 51	\$ 463	\$ 3	\$ 956
303	2,703	870	6,489	66	14,461
55	9	4	4	3	6,765
100	1,630	46	2,358	-	4,134
<u>469</u>	<u>4,561</u>	<u>970</u>	<u>9,314</u>	<u>71</u>	<u>26,317</u>
<u>469</u>	<u>4,561</u>	<u>970</u>	<u>9,314</u>	<u>71</u>	<u>26,317</u>
-	-	-	-	-	431
13,442	-	-	-	-	13,442
<u>13,443</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,873</u>
1,074	13,631	2,188	5,432	3,057	39,067
<u>14,516</u>	<u>13,631</u>	<u>2,188</u>	<u>5,432</u>	<u>3,057</u>	<u>52,940</u>
<u>\$ 14,985</u>	<u>\$ 18,193</u>	<u>\$ 3,158</u>	<u>\$ 14,746</u>	<u>\$ 3,128</u>	<u>\$ 79,257</u>

**Michigan**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED**  
FISCAL YEAR ENDED SEPTEMBER 30, 2004  
(In Thousands)

	MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND	SAFETY EDUCATION AND TRAINING FUND	STATE CONSTRUCTION CODE FUND	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND
<b>REVENUES</b>				
From federal agencies	\$ 120,896	\$ -	\$ -	\$ -
From licenses and permits	-	-	12,529	-
Miscellaneous	120	6,950	113	381
Total Revenues	121,016	6,950	12,642	381
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Labor, commerce, and regulatory	126,050	6,490	13,791	733
Debt Service:				
Capital lease payments	557	-	-	-
Total Expenditures	126,607	6,490	13,791	733
Excess of Revenues over (under) Expenditures	(5,591)	459	(1,148)	(352)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from other funds	7,765	-	-	-
Transfers to other funds	(2,175)	(33)	(175)	(14)
Total Other Financing Sources (Uses)	5,591	(33)	(175)	(14)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	426	(1,323)	(366)
Fund Balances - Beginning of fiscal year	-	4,861	9,536	981
Fund Balances - End of fiscal year	\$ -	\$ 5,287	\$ 8,213	\$ 616

# Michigan

STATE CASINO GAMING FUND	SECOND INJURY FUND	SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND	SELF-INSURERS' SECURITY FUND	UTILITY CONSUMER REPRESENTATION FUND	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 120,896
888	-	-	-	-	13,417
29,268	11,280	1,632	12,255	1,006	63,005
30,155	11,280	1,632	12,255	1,006	197,318
15,507	-	-	-	402	15,910
-	17,108	2,616	11,931	505	179,224
-	-	-	-	-	557
15,507	17,108	2,616	11,931	908	195,691
14,648	(5,828)	(984)	324	99	1,627
-	-	-	-	-	7,765
(8,778)	(25)	(11)	(9)	(4)	(11,223)
(8,778)	(25)	(11)	(9)	(4)	(3,458)
5,870	(5,853)	(995)	315	95	(1,830)
8,646	19,484	3,183	5,117	2,962	54,770
\$ 14,516	\$ 13,631	\$ 2,188	\$ 5,432	\$ 3,057	\$ 52,940

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED  
FISCAL YEAR ENDED SEPTEMBER 30, 2004  
(In Thousands)**

<u>Statutory/Budgetary Basis</u>	<u>MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND</u>			<u>SAFETY EDUCATION AND TRAINING FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES AND OTHER SOURCES</b>						
From federal agencies	\$ 120,896	\$ 120,896	\$ -	\$ -	\$ -	\$ -
From licenses and permits	-	-	-	-	-	-
Miscellaneous	120	120	-	6,950	6,950	-
Transfers in	7,765	7,765	-	-	-	-
Total Revenues and Other Sources	<u>128,781</u>	<u>128,781</u>	<u>-</u>	<u>6,950</u>	<u>6,950</u>	<u>-</u>
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>						
Labor and Economic Growth	128,781	128,781	-	8,097	6,927	1,170
Treasury	-	-	-	-	-	-
Total Expenditures, Transfers Out, and Encumbrances	<u>128,781</u>	<u>128,781</u>	<u>-</u>	<u>8,097</u>	<u>6,927</u>	<u>1,170</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ (1,147)</u>	<u>23</u>	<u>\$ 1,170</u>
Reconciling Items:						
Encumbrances at September 30		-			403	
Funds not annually budgeted		-			-	
Net Reconciling Items		-			403	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		-			426	
<b>FUND BALANCES (GAAP BASIS)</b>						
Beginning balances		-			4,861	
Ending balances (GAAP Basis)		<u>\$ -</u>			<u>\$ 5,287</u>	

# Michigan

STATE CONSTRUCTION CODE FUND			HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12,529	12,529	-	-	-	-
113	113	-	381	381	-
-	-	-	-	-	-
12,642	12,642	-	381	381	-
15,700	13,992	1,708	1,534	748	787
-	-	-	-	-	-
15,700	13,992	1,708	1,534	748	787
<u>\$ (3,058)</u>	<u>(1,350)</u>	<u>\$ 1,708</u>	<u>\$ (1,153)</u>	<u>(366)</u>	<u>\$ 787</u>
	27			-	
	-			-	
	27			-	
	(1,323)			(366)	
	9,536			981	
<u>\$ 8,213</u>			<u>\$ 616</u>		

This schedule continued on next page.

# Michigan

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED (Continued)**  
FISCAL YEAR ENDED SEPTEMBER 30, 2004  
(In Thousands)

<u>Statutory/Budgetary Basis</u>	<u>STATE CASINO GAMING FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES AND OTHER SOURCES</b>			
From federal agencies	\$ -	\$ -	\$ -
From licenses and permits	888	888	-
Miscellaneous	29,268	29,268	-
Transfers in	-	-	-
Total Revenues and Other Sources	<u>30,155</u>	<u>30,155</u>	<u>-</u>
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>			
Labor and Economic Growth	-	-	-
Treasury	<u>24,310</u>	<u>24,286</u>	<u>25</u>
Total Expenditures, Transfers Out, and Encumbrances	<u>24,310</u>	<u>24,286</u>	<u>25</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ 5,845</u>	<u>5,870</u>	<u>\$ 25</u>
Reconciling Items:			
Encumbrances at September 30		-	
Funds not annually budgeted		<u>-</u>	
Net Reconciling Items		<u>-</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>5,870</u>	
<b>FUND BALANCES (GAAP BASIS)</b>			
Beginning balances		<u>8,646</u>	
Ending balances (GAAP Basis)		<u>\$ 14,516</u>	

# Michigan

## FUNDS NOT ANNUALLY BUDGETED

SECOND INJURY FUND	SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND	SELF-INSURERS' SECURITY FUND	UTILITY CONSUMER REPRESENTATION FUND	TOTALS		
				BUDGET	ACTUAL	VARIANCE
ACTUAL	ACTUAL	ACTUAL	ACTUAL			
\$ -	\$ -	\$ -	\$ -	\$ 120,896	\$ 120,896	\$ -
-	-	-	-	13,417	13,417	-
-	-	-	-	36,831	36,831	-
-	-	-	-	7,765	7,765	-
-	-	-	-	178,910	178,910	-
-	-	-	-	154,113	150,448	3,665
-	-	-	-	24,310	24,286	25
-	-	-	-	178,423	174,733	3,690
-	-	-	-	\$ 487	4,177	\$ 3,690
(5,853)	(995)	315	95		431	(6,438)
(5,853)	(995)	315	95		(6,007)	
(5,853)	(995)	315	95		(1,830)	
19,484	3,183	5,117	2,962		54,770	
\$ 13,631	\$ 2,188	\$ 5,432	\$ 3,057		\$ 52,940	



## SPECIAL REVENUE FUNDS – OTHER STATE FUNDS

### SCHOOL BOND LOAN FUND

Article 9, Section 16, of the State Constitution, P.A. 74 of 1955, and P.A. 112 of 1961 authorized the issuance of State general obligation bonds to provide funds for loans to school districts. Loans are made for the payment of principal and interest on school district bonds under prescribed circumstances. State bond proceeds are credited to the fund as an "Other Financing Source." When loans are made, transfers are recorded to the General Fund, which receives loan payments and provides financing for debt service. In the General Fund, loans receivable are recorded as assets.

### TOBACCO SETTLEMENT TRUST FUND

Public Act 489 of 2000 created this fund to account for a portion of the revenue from the master settlement agreement between tobacco manufacturers and the State. The settlement reimburses the State for health care costs, which result from the use of tobacco products. Fund expenditures are used for a variety of programs as determined by the Legislature.

### MICHIGAN MERIT AWARD TRUST FUND

This fund was created by P.A. 94 of 1999 to account for a portion of the revenue from the master settlement agreement between tobacco manufacturers and the State. The settlement reimburses the State for health care costs, which result from the use of tobacco products. The fund also consists of interest and earnings from trust fund investments and donations. Fund expenditures are primarily used for the Michigan Merit Award Scholarship Program.

### ASSIGNED CLAIMS FACILITY AND PLAN FUND

Michigan Compiled Laws Section 500.3171 requires the Secretary of State to organize and maintain the Assigned Claims Facility and Plan Fund to provide personal protection insurance benefits to persons injured by uninsured motorists, when coverage is not available from other sources. The Facility administers the Plan through servicing insurers. Assessments to self-insurers and no-fault insurers cover the costs incurred by the Facility and Plan.

### MISCELLANEOUS SPECIAL REVENUE FUNDS

The miscellaneous special revenue funds column reflects the activities of the following funds: Vietnam Veterans' Memorial Monument, Children's Institute Trust, and Special Assessment Deferment.

# Michigan

**COMBINING BALANCE SHEET**  
**SPECIAL REVENUE FUNDS - OTHER STATE FUNDS**  
 SEPTEMBER 30, 2004  
 (In Thousands)

	SCHOOL BOND LOAN FUND	TOBACCO SETTLEMENT TRUST FUND	MICHIGAN MERIT AWARD TRUST FUND
<b>ASSETS</b>			
Current Assets:			
Equity in common cash	\$ 562	\$ 5,732	\$ 74,058
Other current assets	-	51,284	151,950
Total Current Assets	562	57,016	226,009
Other noncurrent assets	-	-	-
Total Assets	\$ 562	\$ 57,016	\$ 226,009
<b>LIABILITIES AND FUND BALANCES</b>			
Current Liabilities:			
Warrants outstanding	\$ -	\$ 45	\$ 53
Accounts payable and other liabilities	78	646	69,619
Amounts due to other funds	-	3	16
Deferred revenue	-	50,647	151,941
Total Current Liabilities	78	51,339	221,629
Long-Term Liabilities:			
Deferred revenue	-	-	-
Total Liabilities	78	51,339	221,629
Fund Balances:			
Reserves for:			
Budgetary Carry-Forwards:			
Encumbrances	-	175	89
Noncurrent assets	-	-	-
Total Reserved	-	175	89
Unreserved	484	5,501	4,290
Total Fund Balances	484	5,676	4,379
Total Liabilities and Fund Balances	\$ 562	\$ 57,016	\$ 226,009

ASSIGNED CLAIMS FACILITY AND PLAN FUND	MISCELLANEOUS SPECIAL REVENUE FUNDS	TOTALS
\$ 45,016	\$ 1,134	\$ 126,502
1,469	312	205,015
46,485	1,445	331,517
-	1,772	1,772
\$ 46,485	\$ 3,218	\$ 333,289
\$ 40,824	\$ -	\$ 40,922
4,675	21	75,039
-	-	19
986	-	203,573
46,485	21	319,553
-	482	482
46,485	503	320,035
-	-	264
-	1,290	1,290
-	1,290	1,554
-	1,425	11,700
-	2,715	13,254
\$ 46,485	\$ 3,218	\$ 333,289

# Michigan

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

### SPECIAL REVENUE FUNDS - OTHER STATE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

	SCHOOL BOND LOAN FUND	TOBACCO SETTLEMENT TRUST FUND	MICHIGAN MERIT AWARD TRUST FUND
<b>REVENUES</b>			
Miscellaneous	\$ -	\$ 68,323	\$ 203,795
Total Revenues	-	68,323	203,795
<b>EXPENDITURES</b>			
Current:			
General government	622	328	2,104
Education	-	2,400	97,991
Family independence services	-	-	-
Labor, commerce, and regulatory	-	10,224	-
Health services	-	64,043	34,000
Total Expenditures	622	76,995	134,094
Excess of Revenues over (under) Expenditures	(622)	(8,672)	69,701
<b>OTHER FINANCING SOURCES (USES)</b>			
Bonds and notes issued	150,121	-	-
Transfers from other funds	-	-	1
Transfers to other funds	(153,133)	(1,000)	(66,926)
Total Other Financing Sources (Uses)	(3,012)	(1,000)	(66,925)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(3,634)	(9,672)	2,776
Fund Balances - Beginning of fiscal year	4,118	15,348	1,604
Fund Balances - End of fiscal year	\$ 484	\$ 5,676	\$ 4,379

ASSIGNED CLAIMS FACILITY AND PLAN FUND	MISCELLANEOUS SPECIAL REVENUE FUNDS	TOTALS
<u>\$ 85,147</u>	<u>\$ 188</u>	<u>\$ 357,454</u>
<u>85,147</u>	<u>188</u>	<u>357,454</u>
84,458	11	87,523
-	-	100,391
-	4	4
-	-	10,224
-	-	98,043
<u>84,458</u>	<u>16</u>	<u>296,185</u>
<u>690</u>	<u>173</u>	<u>61,269</u>
-	-	150,121
-	-	1
<u>(690)</u>	<u>-</u>	<u>(221,750)</u>
<u>(690)</u>	<u>-</u>	<u>(71,627)</u>
-	172	(10,358)
-	2,543	23,613
<u>\$ -</u>	<u>\$ 2,715</u>	<u>\$ 13,254</u>

**Michigan**

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS  
FISCAL YEAR ENDED SEPTEMBER 30, 2004  
(In Thousands)**

<u>Statutory/Budgetary Basis</u>	<u>TOBACCO SETTLEMENT TRUST FUND</u>			<u>MICHIGAN MERIT AWARD TRUST FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES AND OTHER SOURCES</b>						
Miscellaneous	\$ 68,323	\$ 68,323	\$ -	\$ 203,795	\$ 203,795	\$ -
Transfers in	-	-	-	1	1	-
Total Revenues and Other Sources	<u>68,323</u>	<u>68,323</u>	<u>-</u>	<u>203,796</u>	<u>203,796</u>	<u>-</u>
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>						
Attorney General	352	328	24	-	-	-
Colleges and Universities Grants	2,400	2,400	-	90,233	85,663	4,570
Community Health	64,043	64,043	-	34,000	34,000	-
Education	-	-	-	16,740	16,317	423
Labor and Economic Growth	10,399	10,399	-	-	-	-
Treasury	1,000	1,000	-	66,492	65,130	1,362
Total Expenditures, Transfers Out, and Encumbrances	<u>78,194</u>	<u>78,170</u>	<u>24</u>	<u>207,465</u>	<u>201,110</u>	<u>6,355</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (9,871)</u>	<u>(9,847)</u>	<u>\$ 24</u>	<u>\$ (3,669)</u>	<u>2,687</u>	<u>\$ 6,355</u>
Reconciling Items:						
Encumbrances at September 30		175			89	
Funds not annually budgeted		<u>-</u>			<u>-</u>	
Net Reconciling Items		<u>175</u>			<u>89</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>(9,672)</u>			<u>2,776</u>	
<b>FUND BALANCES (GAAP BASIS)</b>						
Beginning balances		<u>15,348</u>			<u>1,604</u>	
Ending balances (GAAP Basis)		<u>\$ 5,676</u>			<u>\$ 4,379</u>	

# Michigan

## FUNDS NOT ANNUALLY BUDGETED

SCHOOL BOND LOAN FUND	ASSIGNED CLAIMS FACILITY AND PLAN FUND	MISCELLANEOUS SPECIAL REVENUE FUNDS	TOTALS		
ACTUAL	ACTUAL	ACTUAL	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ 272,118	\$ 272,118	\$ -
-	-	-	1	1	-
-	-	-	272,119	272,119	-
-	-	-	352	328	24
-	-	-	92,633	88,063	4,570
-	-	-	98,043	98,043	-
-	-	-	16,740	16,317	423
-	-	-	10,399	10,399	-
-	-	-	67,492	66,130	1,362
-	-	-	285,659	279,279	6,379
-	-	-	<u>\$ (13,539)</u>	<u>(7,160)</u>	<u>\$ 6,379</u>
-	-	-		264	
(3,634)	-	172		<u>(3,462)</u>	
(3,634)	-	172		<u>(3,198)</u>	
(3,634)	-	172		<u>(10,358)</u>	
4,118	-	2,543		<u>23,613</u>	
<u>\$ 484</u>	<u>\$ -</u>	<u>\$ 2,715</u>		<u>\$ 13,254</u>	



## DEBT SERVICE FUNDS

### COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND

This fund was established pursuant to P.A. 51 of 1951, as amended, to account for debt service on all State Trunkline Fund-related bond issues. The bonds are not general obligations of the State. The bonds are payable solely out of funds restricted for transportation purposes by Article 9, Section 9, of the Michigan State Constitution and irrevocably pledged by law for deposit in the State Trunkline Fund. Debt service requirements are funded by annual appropriations in the State Trunkline Fund.

### COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND

This fund was established pursuant to P.A. 51 of 1951, as amended, to account for debt service on all Comprehensive Transportation Fund-related bond issues. The bonds are not general obligations of the State. The bonds are payable solely out of funds restricted for comprehensive transportation purposes by Article 9, Section 9, of the Michigan State Constitution and irrevocably pledged by law for deposit in the Comprehensive Transportation Fund. Debt service requirements are funded by annual appropriations in the Comprehensive Transportation Fund.

### RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND

Public Acts 326 and 327 of 1988 established this fund to service bond issues of the Recreation Bond Fund-Local Projects, Recreation Bond Fund-State Projects, and the Environmental Protection Bond Fund. Also pursuant to P.A. 284 of 1998 and Part 196 of P.A. 451 of 1994, the fund services bond issues of the Clean Michigan Initiative Bond Fund-Local Projects, Clean Michigan Initiative Bond Fund-State Projects, and Clean Michigan Initiative Bond Fund-Environmental Projects. This fund also reflects debt service transactions related to State Park Improvement Fund revenue bonds, issued pursuant to Part 741 of P.A. 451 of 1994, as amended.

Financing of debt retirement, interest expense, and paying agent fees is provided by annual legislative appropriation from the General Fund, transfers from the State Park Improvement Fund representing state park revenues pledged for the payment of State Park Gross Revenue Bonds, and transfers from other funds as required by legislative appropriation or executive order.

Reserved fund balance of \$300 thousand on the Balance Sheet represents a reserve account required by the State Park Gross Revenue Bonds document for additional security to pay bond principal and interest.

### SCHOOL LOAN BOND REDEMPTION FUND

Public Act 74 of 1955 and P.A. 112 of 1961 created this fund to account for debt service on general obligation bonds issued to finance loans to local school districts. The School Bond Loan Fund, a special revenue fund, receives the State bond proceeds and makes the loans. Financing of debt retirement, interest expense, and paying agent fees is provided by annual legislative appropriation from the General Fund.

### STATE BUILDING AUTHORITY

The State Building Authority was created pursuant to P.A. 183 of 1964, as amended, to issue bonds to finance the acquisition or renovation of buildings for use by the State or public institutions of higher education. Public Act 248 of 1988 also permits Authority bonding of state equipment.

The Authority's projects are financed by revenue bonds, the proceeds of which can only be used for construction and debt service on projects related to particular bond issues. During construction, debt service requirements are financed by a portion of the bond proceeds that are dedicated for that purpose. For completed projects, the resources to finance bond interest and redemption are provided by transfers from the General Fund and from investment earnings of this fund. When a project is completed, the remaining net assets are transferred to this fund where they are invested and used for debt service. Excess balances related to a particular bond series remaining in the fund after the final payment on the bond series are transferred to the General Fund.

### MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FINANCE AUTHORITY

The Michigan Underground Storage Tank Financial Assurance Finance Authority was established in 1993 and operates under Part 215 of P.A. 451 of 1994, as amended, to provide financing for the activities of the Michigan Underground Storage Tank Financial Assurance Fund. A five-member board of directors governs the Authority.

**COMBINING BALANCE SHEET**  
**DEBT SERVICE FUNDS**  
 SEPTEMBER 30, 2004  
 (In Thousands)

	COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND	RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND
<b>ASSETS</b>			
Current Assets:			
Cash	\$ -	\$ -	\$ -
Equity in common cash	61	-	1,110
Amounts due from other funds	-	-	-
Investments	-	-	-
Other current assets	-	-	-
Total Current Assets	<u>61</u>	<u>-</u>	<u>1,110</u>
Investments	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 61</u>	<u>\$ -</u>	<u>\$ 1,110</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Current Liabilities:			
Accounts payable and other liabilities	\$ 61	\$ -	\$ -
Amounts due to other funds	-	-	-
Total Current Liabilities	<u>61</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>61</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Reserved for other purposes	-	-	300
Unreserved	-	-	810
Total Fund Balances	<u>-</u>	<u>-</u>	<u>1,110</u>
Total Liabilities and Fund Balances	<u>\$ 61</u>	<u>\$ -</u>	<u>\$ 1,110</u>

# Michigan

SCHOOL LOAN BOND REDEMPTION FUND	STATE BUILDING AUTHORITY	MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FINANCE AUTHORITY	TOTALS
\$ -	\$ -	\$ 4,649	\$ 4,649
-	-	4,339	5,510
-	-	5,690	5,690
-	187,153	191,495	378,649
-	370	-	370
-	187,523	206,173	394,867
-	6,000	-	6,000
\$ -	\$ 193,523	\$ 206,173	\$ 400,867
\$ -	\$ 16	\$ 4,649	\$ 4,726
-	-	30,000	30,000
-	16	34,649	34,726
-	16	34,649	34,726
-	-	-	300
-	193,507	171,524	365,841
-	193,507	171,524	366,141
\$ -	\$ 193,523	\$ 206,173	\$ 400,867

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

## DEBT SERVICE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

	COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND	RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND
<b>REVENUES</b>			
Miscellaneous	\$ -	\$ -	\$ 8
Total Revenues	-	-	8
<b>EXPENDITURES</b>			
Current:			
General government	-	-	-
Education	-	-	-
Transportation	881	-	-
Debt Service:			
Bond principal retirement	23,895	16,325	13,397
Bond interest and fiscal charges	51,291	13,954	43,381
Total Expenditures	76,066	30,279	56,778
Excess of Revenues over (under) Expenditures	(76,066)	(30,278)	(56,770)
<b>OTHER FINANCING SOURCES (USES)</b>			
Premium on bond issuance	9,736	-	-
Refunding bonds issued	103,450	-	-
Payment to refunded bond escrow agent	(112,305)	-	-
Transfers from other funds	75,186	30,279	56,792
Transfers to other funds	-	-	-
Total Other Financing Sources (Uses)	76,066	30,278	56,792
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	-	22
Fund Balances - Beginning of fiscal year	-	-	1,087
Fund Balances - End of fiscal year	\$ -	\$ -	\$ 1,110

# Michigan

SCHOOL LOAN BOND REDEMPTION FUND	STATE BUILDING AUTHORITY	MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FINANCE AUTHORITY	TOTALS
\$ -	\$ 1,559	\$ 1,680	\$ 3,247
-	1,559	1,680	3,247
544	-	42	586
-	4,230	-	4,230
-	-	-	881
213,965	445,205	16,770	729,557
16,040	109,465	7,064	241,194
230,549	558,900	23,876	976,448
(230,549)	(557,341)	(22,196)	(973,201)
-	23,871	-	33,606
139,189	417,610	-	660,249
-	(134,951)	-	(247,256)
91,360	239,939	29,575	523,131
-	-	(1)	(1)
230,549	546,469	29,574	969,730
-	(10,872)	7,378	(3,471)
-	204,379	164,146	369,613
\$ -	\$ 193,507	\$ 171,524	\$ 366,141



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## CAPITAL PROJECTS FUNDS

### COMBINED RECREATION BOND FUND - STATE PROJECTS

Established in 1988, this fund currently operates under Parts 196, 715, and 741 of P.A. 451 of 1994, as amended. The balances in the fund reflect proceeds and investment earnings remaining from three bond packages: \$70 million of general obligation bonds approved by voters in November 1988 as part of a \$140 million bond package for financing State and local public recreation projects, \$50 million of general obligation bonds approved by voters in November 1998 as part of a \$675 million bond package known as the "Clean Michigan Initiative", and \$15.5 million of State Park Gross Revenue Bonds issued in September 2002.

Proceeds from the 1988 bond package were used to construct, expand, and develop recreational facilities at State parks. Proceeds from the 1998 bond package were used for infrastructure improvements at State parks with the installation or upgrade of drinking water systems or restroom facilities as a first priority. Proceeds from the 2002 bond package were used to finance a major renovation of the Sterling State Park.

### ADVANCE FINANCING FUNDS

The Advance Financing Funds reflects the activities of two sub-funds: the State Building Authority Advance Financing Fund and the Site Preparation Economic Development Fund.

The State Building Authority Advance Financing Fund was administratively established to account for expenditures incurred for equipment, higher education, and State projects prior to the issuance of State Building Authority bonds. Appropriation acts and concurrent resolutions provide temporary financing of such expenditures for legislatively authorized projects. Expenditures on behalf of the State Building Authority are recorded when incurred. At year-end, any deficit in the common cash pool is reclassified as a payable to the General Fund. In addition to advance expenditures, expenditures financed by the General Fund or other sources related to State Building Authority projects are recorded in this fund.

The State Building Authority, in its separately issued statements, does not recognize liabilities for these projects until bonds or commercial paper are issued; therefore, no receivable from the Authority is recognized in this fund prior to bond or commercial paper issuance. This results in the fund showing a year-end fund balance deficit. The Authority will reimburse this fund by recording a transfer and the deficit attributable to the bonded projects will be eliminated when the Authority issues bonds or obtains commercial paper.

The Site Preparation Economic Development Fund was created by P.A. 265 of 1999 to account for expenditures incurred to prepare and sell State owned sites declared as surplus that would provide economic benefit to the area or State. Expenditures are recorded when incurred. Sale proceeds of fund properties are deposited into the fund.

### STATE BUILDING AUTHORITY

The State Building Authority was created pursuant to P.A. 183 of 1964, as amended, to issue bonds to finance the acquisition or renovation of buildings for use by the State or public institutions of higher education. Public Act 248 of 1988 also permits Authority bonding of State equipment. The Authority's five board members are appointed by the Governor.

This capital projects fund accounts for the construction of State projects, certain equipment financing, and higher education related projects. Transfers out reflect transfers to the debt service fund of proceeds dedicated for debt service during construction, reimbursements of expenditures to the State Building Authority Advance Financing Fund, and the transfer of net assets remaining after the completion of a project to the debt service fund. In the State's Government-wide Financial Statements, accumulated expenditures for incomplete projects are reflected as "construction in progress" and completed projects are recorded as "buildings."

**COMBINING BALANCE SHEET**  
**CAPITAL PROJECTS FUNDS**  
 SEPTEMBER 30, 2004  
 (In Thousands)

	COMBINED RECREATION BOND FUND- STATE PROJECTS	ADVANCE FINANCING FUNDS	STATE BUILDING AUTHORITY	TOTALS
<b>ASSETS</b>				
Current Assets:				
Equity in common cash	\$ 3,128	\$ -	\$ -	\$ 3,128
Amounts due from other funds	-	45,595	-	45,595
Amounts due from component units	-	1,779	-	1,779
Amounts due from federal agencies	-	6	-	6
Amounts due from local units	-	3,794	-	3,794
Investments	-	-	60,863	60,863
Other current assets	-	1,536	81	1,617
Total Current Assets	<u>3,128</u>	<u>52,710</u>	<u>60,944</u>	<u>116,782</u>
Total Assets	<u>\$ 3,128</u>	<u>\$ 52,710</u>	<u>\$ 60,944</u>	<u>\$ 116,782</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Current Liabilities:				
Warrants outstanding	\$ 18	\$ 51	\$ -	\$ 69
Accounts payable and other liabilities	241	38,155	9	38,405
Amounts due to other funds	-	32,876	46,955	79,831
Bonds and notes payable	-	-	449,170	449,170
Interest payable	-	-	367	367
Total Current Liabilities	<u>259</u>	<u>71,082</u>	<u>496,502</u>	<u>567,842</u>
Total Liabilities	<u>259</u>	<u>71,082</u>	<u>496,502</u>	<u>567,842</u>
Fund Balances:				
Unreserved	<u>2,869</u>	<u>(18,371)</u>	<u>(435,558)</u>	<u>(451,060)</u>
Total Fund Balances	<u>2,869</u>	<u>(18,371)</u>	<u>(435,558)</u>	<u>(451,060)</u>
Total Liabilities and Fund Balances	<u>\$ 3,128</u>	<u>\$ 52,710</u>	<u>\$ 60,944</u>	<u>\$ 116,782</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****CAPITAL PROJECTS FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

	COMBINED RECREATION BOND FUND- STATE PROJECTS	ADVANCE FINANCING FUNDS	STATE BUILDING AUTHORITY	TOTALS
<b>REVENUES</b>				
Miscellaneous	\$ 100	\$ 53	\$ 22,542	\$ 22,695
Total Revenues	100	53	22,542	22,695
<b>EXPENDITURES</b>				
Current:				
General government	-	290	-	290
Education	-	4	135,838	135,842
Capital outlay	10,268	10,434	15,663	36,364
Total Expenditures	10,268	10,728	151,500	172,496
Excess of Revenues over (under) Expenditures	(10,168)	(10,675)	(128,958)	(149,801)
<b>OTHER FINANCING SOURCES (USES)</b>				
Bonds and notes issued	-	-	130,330	130,330
Proceeds from sale of capital assets	-	438	-	438
Premium on bond issuance	-	-	6,799	6,799
Transfers from other funds	-	49,906	-	49,906
Transfers to other funds	(322)	-	(51,787)	(52,109)
Total Other Financing Sources (Uses)	(322)	50,343	85,342	135,364
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(10,490)	39,669	(43,617)	(14,438)
Fund Balances - Beginning of fiscal year	13,358	(58,040)	(391,941)	(436,623)
Fund Balances - End of fiscal year	\$ 2,869	\$ (18,371)	\$ (435,558)	\$ (451,060)



## PERMANENT FUNDS

### MICHIGAN NATURAL RESOURCES TRUST FUND

The State Constitution was amended in 1984 to provide for the Michigan Natural Resources Trust Fund. The fund, established in 1985, operates under Part 19 of P.A. 451 of 1994, as amended. Most rentals, royalties, and other revenues derived from mineral, coal, oil, and gas interests on State-owned land are credited to the fund. Public Act 451 of 1994 directs a portion (50%, up to \$10 million per year) of these revenues to the Michigan State Parks Endowment Fund. The voters approved a constitutional amendment in August 2002, which increased the amount that can be accumulated to \$500 million, modified the distribution formula, and allows the State Treasurer to invest in equity securities and other types of investments.

In accordance with statutory provisions, this fund is to accumulate up to \$500 million in reserves for permanent investments. The amount accumulated toward this cap is shown as a reservation of fund balance. Investment earnings and one-third of royalty earnings are available for appropriation. Two-thirds of royalty earnings, less the portion transferred to the Michigan State Parks Endowment Fund, are added to amounts held for permanent investments until the investment reserve reaches \$500 million. After that time, all royalties, less the portion transferred to the Michigan State Parks Endowment Fund, are restricted for investment and only interest is available for appropriation. Appropriations are used to fund grants to local units of government as well as State agencies to acquire land or develop public recreation facilities and to pay property taxes on State lands acquired by the fund.

### MICHIGAN STATE PARKS ENDOWMENT FUND

Established in 1994, this fund operates under Part 741 of P.A. 451 of 1994, as amended, to finance operations, maintenance, and capital improvements at Michigan State parks. The voters approved a constitutional amendment in August 2002 that changed the distribution formula and allows the State Treasurer to invest in equity securities and other types of investments.

The fund was established with a \$40 million transfer from the sale of the Accident Fund of Michigan to provide funds for permanent investment. By statute, up to \$10 million per year of revenues from oil and gas bonuses, rentals, and royalties from State-owned land are deposited into this fund until the Michigan Natural Resources Trust Fund reaches an accumulated principal of \$500 million after which time all revenue previously going to that fund will go to this fund. The fund's investment reserve will be capped at \$800 million. The legislature is limited to appropriating no more than 50% of the amount transferred from the Michigan Natural Resources Trust Fund plus interest and investment earnings. When the fund's reserve reaches \$800 million, only the interest and earnings in excess of the amount needed to maintain the \$800 million principal limit may be expended.

### MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND

Public Act 394 of 1994, as amended, established this fund for the purpose of conserving, improving, and developing the State's natural resources, and for enhancing, preserving, and maintaining public lands and waters through the employment of residents of this State in work training programs.

Twenty million dollars earmarked from the sale of the Accident Fund of Michigan provided the fund's permanent investment reserve. Only the interest and earnings of the fund can be expended.

### MICHIGAN VETERANS' TRUST FUND

Public Act 9 of 1946 (First Extra Session) created this fund to finance programs to assist veterans and their beneficiaries. A seven-member board of trustees governs the fund. Resources are provided by investment and common cash earnings. Expenditures and transfers out reflect grants to veterans and their widows or dependents, and administrative costs at both the State and local level. The fund is administered within the Department of Military and Veterans Affairs.

### CHILDREN'S TRUST FUND

Public Act 249 of 1982 established the Children's Trust Fund to support the State Child Abuse and Neglect Prevention Board. The Board was established under P.A. 250 of 1982 to coordinate and fund activities for the prevention of child abuse and neglect in the State.

Public Act 291 of 2000 provided for a transfer of \$13.1 million from the General Fund during fiscal year 1999-2000 to bring the fund's total assets to an amount exceeding \$20 million. Only the earnings credited to the fund are available for disbursement once the total assets of the fund exceed \$20 million corpus. Revenues are derived primarily from grants from the federal government, gifts and donations, and interest on investments.

**COMBINING BALANCE SHEET**  
**PERMANENT FUNDS**  
 SEPTEMBER 30, 2004  
 (In Thousands)

	MICHIGAN NATURAL RESOURCES TRUST FUND	MICHIGAN STATE PARKS ENDOWMENT FUND	MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND
<b>ASSETS</b>			
Current Assets:			
Equity in common cash	\$ 177,735	\$ 69,406	\$ 6,785
Amounts due from local units	-	-	-
Securities lending collateral	4,948	5,541	1,020
Other current assets	8,186	315	79
Total Current Assets	190,868	75,261	7,885
Investments	170,512	72,494	13,527
Total Assets	\$ 361,380	\$ 147,756	\$ 21,412
<b>LIABILITIES AND FUND BALANCES</b>			
Current Liabilities:			
Warrants outstanding	\$ 80	\$ 92	\$ 18
Obligations under security lending	4,948	5,541	1,020
Accounts payable and other liabilities	28,515	13,032	94
Amounts due to other funds	11	32	2
Amounts due to component units	-	-	-
Total Current Liabilities	33,553	18,697	1,135
Total Liabilities	33,553	18,697	1,135
Fund Balances:			
Reserves For:			
Budgetary Carry-Forwards:			
Encumbrances	11,005	2,264	-
Multi-year projects	34,320	3,422	-
Funds held as permanent investments	250,729	112,499	19,904
Total Reserved	296,055	118,185	19,904
Unreserved	31,773	10,874	372
Total Fund Balances	327,827	129,058	20,277
Total Liabilities and Fund Balances	\$ 361,380	\$ 147,756	\$ 21,412

<u>MICHIGAN VETERANS' TRUST FUND</u>	<u>CHILDREN'S TRUST FUND</u>	<u>TOTALS</u>
\$ 9,622	\$ 8,465	\$ 272,013
101	-	101
2,962	3,063	17,532
336	155	9,072
<u>13,022</u>	<u>11,683</u>	<u>298,719</u>
39,088	14,334	309,955
<u>\$ 52,110</u>	<u>\$ 26,017</u>	<u>\$ 608,674</u>
\$ 4	\$ 10	\$ 205
2,962	3,063	17,532
1,410	1,158	44,210
6	3	54
120	-	120
<u>4,502</u>	<u>4,234</u>	<u>62,121</u>
4,502	4,234	62,121
1	5	13,275
-	-	37,743
49,000	20,625	452,758
<u>49,001</u>	<u>20,630</u>	<u>503,775</u>
(1,393)	1,152	42,778
47,608	21,782	546,553
<u>\$ 52,110</u>	<u>\$ 26,017</u>	<u>\$ 608,674</u>

# Michigan

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

### PERMANENT FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

	MICHIGAN NATURAL RESOURCES TRUST FUND	MICHIGAN STATE PARKS ENDOWMENT FUND	MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND
<b>REVENUES</b>			
From federal agencies	\$ -	\$ -	\$ -
Miscellaneous	59,705	5,071	690
Total Revenues	<u>59,705</u>	<u>5,071</u>	<u>690</u>
<b>EXPENDITURES</b>			
Current:			
General government	402	206	38
Family independence services	-	-	-
Public safety and corrections	-	-	-
Conservation, environment, recreation, and agriculture	2,578	10,705	905
Capital outlay	15,723	1,680	-
Total Expenditures	<u>18,702</u>	<u>12,591</u>	<u>943</u>
Excess of Revenues over (under) Expenditures	<u>41,003</u>	<u>(7,520)</u>	<u>(253)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of capital assets	5,286	-	-
Transfers from other funds	-	10,000	-
Transfers to other funds	(10,034)	(25)	(5)
Total Other Financing Sources (Uses)	<u>(4,748)</u>	<u>9,975</u>	<u>(5)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	36,255	2,455	(258)
Fund Balances - Beginning of fiscal year	<u>291,572</u>	<u>126,604</u>	<u>20,535</u>
Fund Balances - End of fiscal year	<u><u>\$ 327,827</u></u>	<u><u>\$ 129,058</u></u>	<u><u>\$ 20,277</u></u>

<u>MICHIGAN VETERANS' TRUST FUND</u>	<u>CHILDREN'S TRUST FUND</u>	<u>TOTALS</u>
\$ -	\$ 832	\$ 832
2,581	1,648	69,695
2,581	2,480	70,528
65	-	711
-	2,695	2,695
2,695	-	2,695
-	-	14,188
-	-	17,403
2,760	2,695	37,691
(179)	(215)	32,836
-	-	5,286
-	-	10,000
(31)	(3)	(10,098)
(31)	(3)	5,188
(210)	(218)	38,024
47,818	22,000	508,529
\$ 47,608	\$ 21,782	\$ 546,553

**Michigan**

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
PERMANENT FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

<u>Statutory/Budgetary Basis</u>	MICHIGAN NATURAL RESOURCES TRUST FUND			MICHIGAN STATE PARKS ENDOWMENT FUND		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
<b>REVENUES AND OTHER SOURCES</b>						
From federal agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous	59,705	59,705	-	5,071	5,071	-
Proceeds from sale of capital assets	5,286	5,286	-	-	-	-
Transfers in	-	-	-	10,000	10,000	-
Total Revenues and Other Sources	64,991	64,991	-	15,071	15,071	-
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>						
Family Independence Agency	-	-	-	-	-	-
Military and Veterans Affairs	-	-	-	-	-	-
Natural Resources	40,885	39,339	1,546	14,942	14,674	268
Treasury	402	402	-	206	206	-
Total Expenditures, Transfers Out, and Encumbrances	41,287	39,741	1,546	15,148	14,880	268
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ 23,704	25,250	\$ 1,546	\$ (78)	191	\$ 268
Reconciling Items:						
Encumbrances at September 30		11,005			2,264	
Net Reconciling Items		11,005			2,264	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		36,255			2,455	
<b>FUND BALANCES (GAAP BASIS)</b>						
Beginning balances		291,572			126,604	
Ending balances (GAAP Basis)		\$ 327,827			\$ 129,058	

# Michigan

MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND			MICHIGAN VETERANS' TRUST FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
690	690	-	2,581	2,581	-
-	-	-	-	-	-
-	-	-	-	-	-
690	690	-	2,582	2,582	-
-	-	-	-	-	-
-	-	-	-	-	-
1,033	910	123	4,777	2,728	2,049
38	38	-	65	65	-
1,071	948	123	4,841	2,793	2,049
\$ (381)	(258)	\$ 123	\$ (2,260)	(211)	\$ 2,049
-	-	-	-	1	-
-	-	-	-	1	-
(258)	-	-	(210)	-	-
20,535	-	-	47,818	-	-
\$ 20,277	-	-	\$ 47,608	-	-

This schedule continued on next page.

**Michigan**

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
PERMANENT FUNDS (Continued)**  
FISCAL YEAR ENDED SEPTEMBER 30, 2004  
(In Thousands)

<u>Statutory/Budgetary Basis</u>	<u>CHILDREN'S TRUST FUND</u>			<u>TOTALS</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES AND OTHER SOURCES</b>						
From federal agencies	\$ 832	\$ 832	\$ -	\$ 832	\$ 832	\$ -
Miscellaneous	1,648	1,648	-	69,695	69,695	-
Proceeds from sale of capital assets	-	-	-	5,286	5,286	-
Transfers in	-	-	-	10,000	10,000	-
Total Revenues and Other Sources	<u>2,480</u>	<u>2,480</u>	<u>-</u>	<u>85,814</u>	<u>85,814</u>	<u>-</u>
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY</b>						
Family Independence Agency	4,104	2,703	1,401	4,104	2,703	1,401
Military and Veterans Affairs	-	-	-	4,777	2,728	2,049
Natural Resources	-	-	-	56,860	54,923	1,937
Treasury	-	-	-	711	711	-
Total Expenditures, Transfers Out, and Encumbrances	<u>4,104</u>	<u>2,703</u>	<u>1,401</u>	<u>66,452</u>	<u>61,065</u>	<u>5,387</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (1,624)</u>	<u>(222)</u>	<u>\$ 1,401</u>	<u>\$ 19,362</u>	<u>24,749</u>	<u>\$ 5,387</u>
Reconciling Items:						
Encumbrances at September 30		<u>5</u>			<u>13,275</u>	
Net Reconciling Items		<u>5</u>			<u>13,275</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>(218)</u>			<u>38,024</u>	
<b>FUND BALANCES (GAAP BASIS)</b>						
Beginning balances		<u>22,000</u>			<u>508,529</u>	
Ending balances (GAAP Basis)		<u>\$ 21,782</u>			<u>\$ 546,553</u>	

## ENTERPRISE FUNDS

### LIQUOR PURCHASE REVOLVING FUND

Public Act 259 of 1941 authorized the creation of the Liquor Purchase Revolving Fund. The Liquor Control Commission, within the Department of Labor and Economic Growth, is primarily responsible for the fund. Under State monopoly, liquor is sold at wholesale through a State controlled, privately operated distribution system. The fund accounts for the sales of and the replenishing and transporting of the liquor stock. Administrative, warehousing, and delivery costs are paid for through the fund. At the end of each fiscal year, the "net income" of the fund is transferred to the General Fund in accordance with P.A. 431 of 1984.

### ATTORNEY DISCIPLINE SYSTEM

The Attorney Discipline System consists of the Attorney Grievance Commission and the Attorney Discipline Board. This system provides the courts, legal profession, and the general public with a means to ensure that complaints against attorneys for potential violations of the Court Rules and the Michigan Rules of Professional Conduct are properly heard and investigated, and that sanctions are imposed where required. The Attorney Discipline System is under the supervision of the Michigan Supreme Court.

The Attorney Discipline System receives revenue in the form of mandatory annual assessments on members of the State Bar of Michigan, provided for by Court Rules. This system also receives other revenue, primarily through the assessment of administrative fees and the recovery of costs, including subpoena fees and transcript costs.

**STATEMENT OF NET ASSETS**  
**ENTERPRISE FUNDS**  
 SEPTEMBER 30, 2004  
 (In Thousands)

	LIQUOR PURCHASE REVOLVING FUND	ATTORNEY DISCIPLINE SYSTEM	TOTALS
<b>ASSETS</b>			
Current Assets:			
Cash	\$ 1	\$ 1,193	\$ 1,194
Equity in common cash	60,064	-	60,064
Inventories	3,501	-	3,501
Investments	-	1,163	1,163
Other current assets	7,370	57	7,427
Total Current Assets	<u>70,935</u>	<u>2,414</u>	<u>73,349</u>
Capital Assets:			
Buildings and equipment	-	722	722
Allowance for depreciation	-	(669)	(669)
Total capital assets	<u>-</u>	<u>53</u>	<u>53</u>
Total Assets	<u>\$ 70,935</u>	<u>\$ 2,467</u>	<u>\$ 73,403</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Warrants outstanding	\$ 6,677	\$ -	\$ 6,677
Accounts payable and other liabilities	58,522	172	58,694
Amounts due to other funds	77	-	77
Deferred revenue	-	695	695
Current portion of other long-term obligations	196	-	196
Total Current Liabilities	<u>65,472</u>	<u>867</u>	<u>66,339</u>
Long-Term Liabilities:			
Noncurrent portion of other long-term obligations	588	-	588
Total Liabilities	<u>66,060</u>	<u>867</u>	<u>66,927</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ -	\$ 53	\$ 53
Unrestricted	4,876	1,547	6,423
Total Net Assets	<u>\$ 4,876</u>	<u>\$ 1,600</u>	<u>\$ 6,476</u>

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS****ENTERPRISE FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

	LIQUOR PURCHASE REVOLVING FUND	ATTORNEY DISCIPLINE SYSTEM	TOTALS
<b>OPERATING REVENUES</b>			
Operating revenues	\$ 675,747	\$ 4,593	\$ 680,340
Total Operating Revenues	675,747	4,593	680,340
<b>OPERATING EXPENSES</b>			
Salaries, wages, and other administrative	50,149	4,032	54,181
Depreciation	-	24	24
Purchases for resale	493,271	-	493,271
Premiums and claims	1	-	1
Other operating expenses	1,262	-	1,262
Total Operating Expenses	544,683	4,056	548,739
Operating Income (Loss)	131,064	537	131,601
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Specific tax on spirits	11,989	-	11,989
Interest revenue	1,127	50	1,177
Investment revenue (expense) - net	-	48	48
Total Nonoperating Revenues (Expenses)	13,116	98	13,214
Income (Loss) Before Capital Contributions and Transfers	144,180	636	144,815
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>			
Transfers to other funds	(144,180)	-	(144,180)
Total Capital Contributions and Transfers In (Out)	(144,180)	-	(144,180)
Change in net assets	-	636	636
Total net assets - Beginning of fiscal year	4,876	965	5,841
Total net assets - End of fiscal year	\$ 4,876	\$ 1,600	\$ 6,476

## STATEMENT OF CASH FLOWS

## ENTERPRISE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

	LIQUOR PURCHASE REVOLVING FUND	ATTORNEY DISCIPLINE SYSTEM	TOTALS
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 675,747	\$ -	\$ 675,747
Membership dues	-	4,791	4,791
Payments to employees	(10,139)	(3,207)	(13,347)
Payments to suppliers	(523,629)	(495)	(524,124)
Other receipts	-	167	167
Other payments	(4,784)	(343)	(5,127)
Net cash provided (used)			
by operating activities	\$ 137,195	\$ 912	\$ 138,107
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Specific tax on spirits	\$ 11,989	\$ -	\$ 11,989
Transfers to other funds	(144,180)	-	(144,180)
Net cash provided (used)			
by noncapital financing activities	\$ (132,191)	\$ -	\$ (132,191)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale and maturities of investment securities	\$ -	\$ (26)	\$ (26)
Interest and dividends on investments	1,127	50	1,177
Net cash provided (used)			
by investing activities	\$ 1,127	\$ 24	\$ 1,151
Net cash provided (used) - all activities	\$ 6,131	\$ 936	\$ 7,067
Cash and cash equivalents at beginning of year	47,256	257	47,514
<b>Cash and cash equivalents at end of year</b>	<b>\$ 53,387</b>	<b>\$ 1,193</b>	<b>\$ 54,580</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>			
Per Statement of Net Assets Classifications:			
Cash	\$ 1	\$ 1,193	\$ 1,194
Equity in common cash	60,064	-	60,064
Warrants outstanding	(6,677)	-	(6,677)
Cash and cash equivalents at end of year	\$ 53,387	\$ 1,193	\$ 54,580
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 131,064	\$ 537	\$ 131,601
Adjustments to Reconcile Operating Income to Net Cash Provided (Used)			
by Operating Activities:			
Depreciation expense	-	24	24
Net Changes in Assets and Liabilities:			
Inventories	161	-	161
Other assets (net)	(3,555)	49	(3,506)
Accounts payable and other liabilities	9,525	(63)	9,462
Deferred revenue	-	365	365
Net cash provided (used)			
by operating activities	\$ 137,195	\$ 912	\$ 138,107

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## INTERNAL SERVICE FUNDS

### CORRECTIONAL INDUSTRIES REVOLVING FUND

Created by P.A. 210 of 1935 and continued by P.A. 15 of 1968, this fund accounts for the financial transactions of a manufacturing and processing industry, employing inmates incarcerated in Michigan's correctional institutions. Public Act 245 of 1980 expanded the fund's sales market to include institutions of this or any other state or political subdivision thereof, the federal government or its agencies, and certain tax-exempt organizations.

Public Act 205 of 1986 stipulates that the fund repay the General Fund for the cost of building and equipping prison factories included as part of new prison construction. The costs of buildings and equipment are to be repaid over 30 years and 10 years respectively. The repayment provisions, as stipulated in Executive Order 1992-13, resulted in no required payment in fiscal year 2003-2004.

### MOTOR TRANSPORT FUND

This fund was created by P.A. 260 of 1947 and continued by P.A. 431 of 1984 to provide vehicle and travel services for State agencies. Activities include lease, purchase, replacement, and maintenance of automotive equipment. Vehicles are available to agencies on a permanently assigned basis or through the motor pool for short-term usage and are furnished to agencies at a rate sufficient to cover all costs of operation and maintenance. Agencies are billed on a monthly basis for services rendered.

### OFFICE SERVICES REVOLVING FUND

Created by P.A. 262 of 1952, this fund provides services in the following areas: printing, reproduction, microfilm, mailing, distribution of federal and state surplus property, and materials management. The cost of the services or supplies is charged to user departments and agencies. Resultant revenue is credited to the revolving fund and is used for administration and operation of the program, including purchase of necessary equipment. During fiscal year 2001-2002, the use of the fund was expanded to account for the purchase of bulk gas used by State agencies.

### INFORMATION TECHNOLOGY FUND

This fund was created by administrative decision to provide telecommunication and information technology services for State agencies. User agencies are billed for the cost of such services. During fiscal year 2001-2002, the use of this fund was expanded to account for all information technology activities of the executive branch as prescribed in Executive Order 2001-03.

### RISK MANAGEMENT FUND

Administratively established, this fund accounts for certain centralized risk management functions performed by the Department of Management and Budget for other State agencies. Currently, the fund has assumed a degree of risk for the automotive liability. This activity and administrative functions are recorded as operating activity of the fund. An activity of the fund for which the fund assumes no risk is the centralized processing of workers' compensation payments for State agencies. Workers' compensation long-term claim liabilities are recorded in the Government-wide Financial Statements and the related current year workers' compensation expenditures are recorded in the applicable funds.

### STATE SPONSORED GROUP INSURANCE FUND

This fund was administratively established to reflect the financial transactions of the State sponsored insurance plans that provide health, long-term disability, life, vision, and dental coverage for participating employees and retirees. The plans' funding methods range from those where the State is fully self-insured to those where an outside carrier assumes partial risk on a contracted basis. A note to the Government-wide Financial Statements entitled "Risk Management" provides additional information about this fund.

The amounts reflected as amounts due from other funds include reclassifications of other funds' negative balances in the common cash pool.

**COMBINING STATEMENT OF NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
 SEPTEMBER 30, 2004  
 (In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	MOTOR TRANSPORT FUND	OFFICE SERVICES REVOLVING FUND
<b>ASSETS</b>			
Current Assets:			
Cash	\$ -	\$ -	\$ -
Equity in common cash	1,429	-	285
Amounts due from other funds	-	-	-
Amounts due from component units	-	-	-
Inventories	10,943	312	3,493
Other current assets	229	9,699	1,406
Total Current Assets	<u>12,601</u>	<u>10,011</u>	<u>5,184</u>
Capital Assets:			
Buildings and equipment	49,458	12,537	24,388
Allowance for depreciation	(21,751)	(10,540)	(14,955)
Total capital assets	<u>27,707</u>	<u>1,997</u>	<u>9,432</u>
Total Assets	<u>\$ 40,308</u>	<u>\$ 12,008</u>	<u>\$ 14,616</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Warrants outstanding	\$ 249	\$ 10	\$ 267
Accounts payable and other liabilities	1,285	1,949	8,413
Amounts due to other funds	122	6,937	5,237
Deferred revenue	-	3	-
Current portion of other long-term obligations	114	29	1,897
Total Current Liabilities	<u>1,771</u>	<u>8,928</u>	<u>15,814</u>
Long-Term Liabilities:			
Advances from other funds	6,768	-	-
Noncurrent portion of other long-term obligations	1,399	385	3,508
Total Liabilities	<u>\$ 9,938</u>	<u>\$ 9,314</u>	<u>\$ 19,323</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 27,707	\$ 1,997	\$ 6,267
Restricted for other purposes	2,664	697	-
Unrestricted	-	-	(10,974)
Total Net Assets	<u>\$ 30,371</u>	<u>\$ 2,695</u>	<u>\$ (4,707)</u>

# Michigan

INFORMATION TECHNOLOGY FUND	RISK MANAGEMENT FUND	STATE SPONSORED GROUP INSURANCE FUND	TOTALS
\$ 1	\$ -	\$ 90	\$ 91
25,697	8,310	238,716	274,437
-	-	31,180	31,180
-	-	152	152
155	-	-	14,904
131	1,501	7,328	20,293
<u>25,984</u>	<u>9,811</u>	<u>277,466</u>	<u>341,057</u>
355,702	4	303	442,392
(292,584)	(4)	(303)	(340,138)
63,118	-	-	102,254
<u>\$ 89,102</u>	<u>\$ 9,811</u>	<u>\$ 277,466</u>	<u>\$ 443,311</u>
\$ 1,790	\$ -	\$ 1,273	\$ 3,589
36,063	780	21,319	69,809
1,118	6	-	13,419
6,511	-	223	6,737
11,408	2,562	80,451	96,461
<u>56,890</u>	<u>3,347</u>	<u>103,266</u>	<u>190,016</u>
-	-	-	6,768
27,082	5,058	87,474	124,907
<u>\$ 83,972</u>	<u>\$ 8,406</u>	<u>\$ 190,740</u>	<u>\$ 321,691</u>
\$ 46,696	\$ -	\$ -	\$ 82,667
-	-	-	3,361
(41,566)	1,405	86,726	35,591
<u>\$ 5,130</u>	<u>\$ 1,405</u>	<u>\$ 86,726</u>	<u>\$ 121,620</u>

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS****INTERNAL SERVICE FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	MOTOR TRANSPORT FUND	OFFICE SERVICES REVOLVING FUND
<b>OPERATING REVENUES</b>			
Operating revenues	\$ 36,472	\$ 59,710	\$ 73,126
Total Operating Revenues	36,472	59,710	73,126
<b>OPERATING EXPENSES</b>			
Salaries, wages, and other administrative	22,548	4,636	27,911
Interest expense	-	-	-
Depreciation	1,691	1,361	2,062
Purchases for resale	-	-	43,058
Purchases for prison industries	14,204	-	-
Premiums and claims	-	2,078	1
Other operating expenses:			
Leased vehicles expense	-	29,537	-
Vehicle maintenance expense	-	21,500	-
Miscellaneous	-	-	-
Total other operating expenses	-	51,037	-
Total Operating Expenses	38,443	59,112	73,031
Operating Income (Loss)	(1,972)	598	95
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest revenue	-	-	-
Other nonoperating revenues	-	121	9
Interest expense	(292)	-	(199)
Other nonoperating expense	(744)	(1)	(46)
Total Nonoperating Revenues (Expenses)	(1,036)	120	(236)
Income (Loss) Before Capital Contributions and Transfers	(3,008)	718	(141)
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>			
Capital contributions from other funds	-	-	-
Transfers to other funds	(205)	(57)	(120)
Total Capital Contributions and Transfers In (Out)	(205)	(57)	(120)
Change in net assets	(3,212)	661	(261)
Total net assets - Beginning of fiscal year	33,583	2,033	(4,445)
Total net assets - End of fiscal year	\$ 30,371	\$ 2,695	\$ (4,707)

INFORMATION TECHNOLOGY FUND	RISK MANAGEMENT FUND	STATE SPONSORED GROUP INSURANCE FUND	TOTALS
\$ 448,612	\$ 4,623	\$ 946,525	\$ 1,569,067
448,612	4,623	946,525	1,569,067
407,111	948	58,608	521,761
18	-	-	18
43,852	-	-	48,966
-	-	-	43,058
-	-	-	14,204
5	3,122	889,632	894,837
59	-	-	29,596
-	-	-	21,500
3	-	-	3
62	-	-	51,099
451,048	4,070	948,240	1,573,943
(2,436)	553	(1,715)	(4,876)
-	-	3,025	3,025
500	-	-	630
(723)	-	-	(1,214)
-	-	-	(791)
(223)	-	3,025	1,651
(2,659)	553	1,311	(3,226)
1,125	-	-	1,125
(795)	(8)	(5)	(1,190)
330	(8)	(5)	(64)
(2,329)	545	1,306	(3,290)
7,459	860	85,420	124,910
\$ 5,130	\$ 1,405	\$ 86,726	\$ 121,620

**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2004**  
(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	MOTOR TRANSPORT FUND	OFFICE SERVICES REVOLVING FUND
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 36,483	\$ 58,284	\$ 72,969
Payments to employees	(13,550)	(2,598)	(10,082)
Payments to suppliers	(13,253)	(51,233)	(55,565)
Claims paid	-	-	-
Other receipts	-	311	-
Other payments	(8,784)	-	-
Net cash provided (used) by operating activities	<u>\$ 895</u>	<u>\$ 4,764</u>	<u>\$ 7,322</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Loans or loan repayments from other funds	\$ 292	\$ 6,914	\$ 5,126
Loans or loan repayments to other funds	-	(11,714)	(7,941)
Transfers to other funds	(205)	(57)	(120)
Other receipts	-	-	9
Net cash provided (used) by noncapital financing activities	<u>\$ 88</u>	<u>\$ (4,856)</u>	<u>\$ (2,926)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	\$ (966)	\$ -	\$ (61)
Interest paid	(292)	-	-
Capital lease payments (including imputed interest expense)	-	-	(1,384)
Proceeds from sale of capital assets	-	120	59
Net cash provided (used) by capital and related financing activities	<u>\$ (1,258)</u>	<u>\$ 120</u>	<u>\$ (1,386)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and dividends on investments	\$ -	\$ -	\$ -
Net cash provided (used) by investing activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net cash provided (used) - all activities	\$ (275)	\$ 28	\$ 3,010
Cash and cash equivalents at beginning of year	<u>1,455</u>	<u>(38)</u>	<u>(2,992)</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>\$ 1,180</u></u>	<u><u>\$ (10)</u></u>	<u><u>\$ 18</u></u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>			
Per Statement of Net Assets Classifications:			
Cash	\$ -	\$ -	\$ -
Equity in common cash	1,429	-	285
Warrants outstanding	(249)	(10)	(267)
Cash and cash equivalents at end of year	<u><u>\$ 1,180</u></u>	<u><u>\$ (10)</u></u>	<u><u>\$ 18</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ (1,972)	\$ 598	\$ 95
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation expense	1,691	1,361	2,062
Net Changes in Assets and Liabilities:			
Inventories	1,059	(45)	1,332
Other assets (net)	11	4,026	(907)
Accounts payable and other liabilities	105	(1,175)	4,741
Net cash provided (used) by operating activities	<u><u>\$ 895</u></u>	<u><u>\$ 4,764</u></u>	<u><u>\$ 7,322</u></u>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>			
Capital contributions	\$ -	\$ -	\$ -
Cost of capital assets acquisitions financed by capital leases	-	-	590
Capital lease liabilities entered into during the year	-	-	(590)
Gain (loss) on disposal of capital assets	(292)	-	(46)
Total noncash investing, capital, and financing activities	<u><u>\$ (292)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (46)</u></u>

# Michigan

INFORMATION TECHNOLOGY FUND	RISK MANAGEMENT FUND	STATE SPONSORED GROUP INSURANCE FUND	TOTALS
\$ 450,982	\$ 4,623	\$ 928,980	\$ 1,552,322
(132,035)	(608)	-	(158,873)
(291,209)	(1,192)	(265,677)	(678,130)
-	(3,136)	(677,892)	(681,027)
-	-	-	311
-	-	-	(8,784)
<u>\$ 27,738</u>	<u>\$ (312)</u>	<u>\$ (14,589)</u>	<u>\$ 25,819</u>
\$ -	\$ -	\$ 19,655	\$ 31,987
-	-	(12,040)	(31,695)
(795)	(8)	(5)	(1,190)
-	-	-	9
<u>\$ (795)</u>	<u>\$ (8)</u>	<u>\$ 7,610</u>	<u>\$ (888)</u>
(18,487)	\$ -	\$ -	\$ (19,514)
-	-	-	(292)
(15,653)	-	-	(17,037)
-	-	-	180
<u>\$ (34,140)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (36,664)</u>
\$ -	\$ -	\$ 3,025	\$ 3,025
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,025</u>	<u>\$ 3,025</u>
\$ (7,197)	\$ (321)	\$ (3,954)	\$ (8,708)
31,105	8,631	241,487	279,647
<u>\$ 23,908</u>	<u>\$ 8,310</u>	<u>\$ 237,533</u>	<u>\$ 270,939</u>
\$ 1	\$ -	\$ 90	\$ 91
25,697	8,310	238,716	274,437
(1,790)	-	(1,273)	(3,589)
<u>\$ 23,908</u>	<u>\$ 8,310</u>	<u>\$ 237,533</u>	<u>\$ 270,939</u>
\$ (2,436)	\$ 553	\$ (1,715)	\$ (4,876)
43,852	-	-	48,966
-	-	-	2,346
102	5	(15,840)	(12,603)
(13,779)	(871)	2,965	(8,014)
<u>\$ 27,738</u>	<u>\$ (312)</u>	<u>\$ (14,589)</u>	<u>\$ 25,819</u>
\$ 1,125	\$ -	\$ -	\$ 1,125
9,986	-	-	10,576
(9,986)	-	-	(10,576)
-	-	-	(339)
<u>\$ 1,125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 786</u>



## PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

Notes to the financial statements, entitled "Deferred Compensation Plans" and "Pension Benefits and Other Postemployment Benefits," include additional information regarding the following funds and plans.

### STATE EMPLOYEES' DEFERRED COMPENSATION FUNDS

The State Employees' Deferred Compensation Fund I (457) and the State Employees' Deferred Compensation Fund II (401k) are combined for reporting purposes. Both funds were administratively established to account for deferred compensation plans that permit State employees to defer a portion of their income until future years. Executive Order 1999-7 transferred administration of the plans from the Department of Treasury to the Department of Management and Budget. However, the State Treasurer continues to oversee investment options.

### LEGISLATIVE RETIREMENT FUND

Public Act 261 of 1957 created the Legislative Retirement System (LRS) to provide retirement and other benefits for members of the Legislature, the presiding officers, and their surviving spouses or children. Participants in the system have a deduction from each salary payment to partially finance the fund. Legislative appropriations, interest on fund investments, and court fees complete the financing.

Public Act 486 of 1996 amended LRS' enabling legislation to provide that individuals who first became a legislator or lieutenant governor on or after March 31, 1997, participate in the State's defined contribution plan.

### STATE POLICE RETIREMENT FUND

This fund was created by P.A. 251 of 1935 and later superseded by P.A. 182 of 1986. A nine-member board, under the direction of a chairperson elected from the membership, administers the fund to provide retirement benefits for State Police officers. Financing is provided by investment income and by an annual legislative appropriation.

### STATE EMPLOYEES' RETIREMENT FUND

This fund was established by P.A. 240 of 1943 and is administered by a nine-member board under the direction of an Executive Secretary. Public Act 216 of 1974 eliminated the requirement for member contributions and provided for financing by legislative appropriation and investment earnings.

Effective March 31, 1997, P.A. 487 of 1996 closed the plan to new applicants. All new employees become members of the State's defined contribution plan. The public act also allows returning employees and members who left state employment on or before March 31, 1997, to elect the defined benefit plan instead of the defined contribution plan.

### PUBLIC SCHOOL EMPLOYEES' RETIREMENT FUND

In accordance with P.A. 300 of 1980, on October 1, 1981, the Public School Employees' Chapter I Retirement Fund merged with the Public School Employees' Chapter II Retirement Fund to establish the Public School Employees' Retirement Fund. Public Acts 136 of 1945 and 259 of 1974, respectively, created the two original funds. An eight-member board governs administrative policy.

Employer contributions and investment earnings provide financing for the fund. Under P.A. 91 of 1985, employees may contribute additional amounts into a "member investment plan."

### JUDGES' RETIREMENT FUND

Public Act 234 of 1992 authorized the merger of the Probate Judges' Retirement Fund into the Judges' Retirement Fund by requiring the consolidation of all assets, rights, and obligations under the former Judges' and Probate Judges' Retirement Funds. The Judges' Retirement Board, with the director of the Office of Retirement Systems as the Executive Secretary, administers the consolidated fund. Financing comes from member contributions, court filing fees as provided under law, investment earnings, and legislative appropriations.

Public Act 523 of 1996, effective March 31, 1997, closed the plan to new entrants. Judges or state officials newly appointed or elected on or after March 31, 1997, become members of the State's defined contribution plan.

### STATE EMPLOYEES' DEFINED CONTRIBUTION RETIREMENT FUND

This fund was established by P.A. 487 of 1996 as a defined contribution pension plan for all state employees hired after March 31, 1997, and for those members of the State Employees' Retirement (defined benefit) System, Judges' Retirement System, and Legislative Retirement System who elected to transfer to this plan. Executive Order 1999-7 transferred administration of the fund from the Department of Treasury to the Department of Management and Budget. However, the State Treasurer shall continue to oversee investment options.

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS**  
 SEPTEMBER 30, 2004  
 (In Thousands)

	STATE EMPLOYEES' DEFERRED COMPENSATION FUNDS	LEGISLATIVE RETIREMENT FUND	STATE POLICE RETIREMENT FUND
<b>ASSETS</b>			
Cash	\$ -	\$ -	\$ -
Equity in common cash	814	3,448	8,386
Receivables:			
Employee	97,933	-	-
Employer	432	116	-
Interest and dividends	-	60	3
Due from other funds	24	-	1,543
Sale of investments	-	184	-
Investments at Fair Value:			
Short-term investments	51,404	-	19,504
Bonds, notes, mortgages, and preferred stock	-	-	191,458
Common stock	-	65,973	501,035
Real estate	-	-	76,438
Alternative investments	-	-	132,259
International investments	-	-	112,429
Mutual funds	1,358,405	99,080	-
Pooled investment funds	1,611,540	-	-
Money market funds	60,252	-	-
Securities lending collateral	-	-	65,551
Total Assets	\$ 3,180,803	\$ 168,861	\$ 1,108,605
<b>LIABILITIES</b>			
Warrants outstanding	\$ -	\$ 31	\$ 224
Accounts payable and other liabilities	-	612	68
Amounts due to other funds	-	2	-
Obligations under security lending	-	-	65,551
Total Liabilities	\$ -	\$ 645	\$ 65,843
<b>NET ASSETS</b>			
Net assets held in trust for pension, postemployment health-care, and other employee benefits	\$ 3,180,803	\$ 168,216	\$ 1,042,762
Reconciliation of Net Assets Held in Trust:			
Pension benefits	\$ -	\$ 158,423	\$ 1,042,762
Postemployment health-care benefits	-	9,793	-
Other employee benefits	3,180,803	-	-
Total net assets held in trust for benefits	\$ 3,180,803	\$ 168,216	\$ 1,042,762

**Michigan**

STATE EMPLOYEES' RETIREMENT FUND	PUBLIC SCHOOL EMPLOYEES' RETIREMENT FUND	JUDGES' RETIREMENT FUND	STATE EMPLOYEES' DEFINED CONTRIBUTION RETIREMENT FUND	TOTALS
\$ 5	\$ 587	\$ -	\$ -	\$ 592
37,345	156,278	2,155	-	208,426
-	-	-	38,409	136,342
87,072	458,465	67	68	546,220
24	92	1	-	179
13,335	-	-	-	14,902
-	-	-	-	184
222,980	1,153,592	6,558	95,117	1,549,154
1,594,598	6,337,628	53,559	-	8,177,244
4,567,228	17,684,366	128,971	-	22,947,573
723,689	2,433,331	26,141	-	3,259,600
1,199,581	4,812,902	25,003	-	6,169,744
1,020,558	3,811,046	25,392	-	4,969,425
-	-	-	220,321	1,677,805
-	-	-	144,703	1,756,243
-	-	-	2,829	63,081
558,059	2,166,910	18,077	-	2,808,598
<u>\$ 10,024,472</u>	<u>\$ 39,015,198</u>	<u>\$ 285,925</u>	<u>\$ 501,447</u>	<u>\$ 54,285,311</u>
\$ 2,790	\$ 7,006	\$ 47	\$ -	\$ 10,098
1,255	68,797	3	-	70,735
-	-	-	24	26
558,059	2,166,910	18,077	-	2,808,598
<u>\$ 562,104</u>	<u>\$ 2,242,713</u>	<u>\$ 18,127</u>	<u>\$ 24</u>	<u>\$ 2,889,457</u>
<u>\$ 9,462,368</u>	<u>\$ 36,772,485</u>	<u>\$ 267,797</u>	<u>\$ 501,423</u>	<u>\$ 51,395,854</u>
\$ 9,428,464	\$ 36,288,507	\$ 268,082	\$ 501,423	\$ 47,687,660
33,905	483,978	(285)	-	527,391
-	-	-	-	3,180,803
<u>\$ 9,462,368</u>	<u>\$ 36,772,485</u>	<u>\$ 267,797</u>	<u>\$ 501,423</u>	<u>\$ 51,395,854</u>

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

	STATE EMPLOYEES' DEFERRED COMPENSATION FUNDS	LEGISLATIVE RETIREMENT FUND	STATE POLICE RETIREMENT FUND
<b>ADDITIONS</b>			
Contributions:			
From participants	\$ 151,419	\$ 197	\$ 1,602
From employers	-	2,947	50,219
From other plans	5,010	-	-
Investment Income:			
Net appreciation (depreciation) in fair value of investments	197,504	15,719	97,723
Interest, dividends, and other	74,530	3,816	22,708
Securities lending income	-	-	704
Less Investment Expense:			
Investment activity expense	-	525	1,689
Securities lending expense	-	-	628
Net investment income (loss)	272,034	19,010	118,817
Miscellaneous income	868	1,231	-
Total Additions	429,330	23,385	170,639
<b>DEDUCTIONS</b>			
Benefits paid to participants or beneficiaries	220,843	8,016	77,592
Medical, dental, and life insurance for retirants	-	3,965	29,195
Refunds and transfers to other systems	1,195	16	1
Administrative expense	5,560	304	316
Transfers to other funds	-	-	1
Total Deductions	227,598	12,301	107,105
Net increase (decrease)	201,732	11,084	63,533
Net assets held in trust for pension, postemployment health-care, and other employee benefits - Beginning of fiscal year	2,979,071	157,132	979,228
Net assets held in trust for pension, postemployment health-care, and other employee benefits - End of fiscal year	\$ 3,180,803	\$ 168,216	\$ 1,042,762
Reconciliation of Net Increase in Assets:			
Net increase (decrease) in assets held in trust for pension benefits	\$ -	\$ 9,686	\$ 65,730
Net increase (decrease) in assets held in trust for postemployment benefits	-	1,398	(2,196)
Net increase (decrease) in assets held in trust for other employee benefits	201,732	-	-
Total net increase (decrease)	\$ 201,732	\$ 11,084	\$ 63,533

# Michigan

STATE EMPLOYEES' RETIREMENT FUND	PUBLIC SCHOOL EMPLOYEES' RETIREMENT FUND	JUDGES' RETIREMENT FUND	STATE EMPLOYEES' DEFINED CONTRIBUTION RETIREMENT FUND	TOTALS
\$ 47,406	\$ 509,118	\$ 2,628	\$ 20,070	\$ 732,441
461,428	1,316,478	-	55,983	1,887,056
26	20	-	-	5,055
887,790	3,448,001	22,924	32,279	4,701,940
203,946	776,830	6,221	5,863	1,093,914
6,017	23,292	194	-	30,206
15,266	61,292	349	-	79,120
5,349	20,738	173	-	26,887
1,077,138	4,166,093	28,818	38,143	5,720,053
2	32	215	132	2,480
1,586,001	5,991,741	31,661	114,328	8,347,086
731,009	2,358,216	17,541	17,980	3,431,197
354,650	615,417	576	-	1,003,803
183	18,521	68	11,833	31,818
4,305	70,432	210	1,136	82,263
12	62	-	-	74
1,090,158	3,062,647	18,395	30,950	4,549,155
495,842	2,929,094	13,266	83,379	3,797,931
8,966,526	33,843,391	254,531	418,044	47,597,924
\$ 9,462,368	\$ 36,772,485	\$ 267,797	\$ 501,423	\$ 51,395,854
\$ 504,197	\$ 2,888,648	\$ 13,144	\$ 83,379	\$ 3,564,783
(8,355)	40,446	123	-	31,416
-	-	-	-	201,732
\$ 495,842	\$ 2,929,094	\$ 13,266	\$ 83,379	\$ 3,797,931



## **PRIVATE PURPOSE TRUST FUNDS**

### **ESCHEATS FUND**

The Escheats Fund operates under the authority of P.A. 29 of 1995 and is used to account for unclaimed property held by the State until claimed by the rightful owners. All property, including any income or increment derived from the property, is subject to the custody of (escheated to) the State when certain criteria contained within the Act are met. Proceeds of the fund pay the administrative costs and prompt claims allowed under the Act.

### **GIFTS, BEQUESTS, AND DEPOSITS INVESTMENT FUND**

This fund was administratively established to account for gifts, bequests, and deposits donated or entrusted to the State. Gifts and donations to the State may only be expended in accordance with applicable external restrictions. This fund earns interest quarterly for its share of the equity in the State Treasurer's Common Cash pool.

### **HOSPITAL PATIENTS' TRUST FUND**

Public Act 258 of 1974 established this fund to account for funds of patients receiving services in State hospitals. The Department of Community Health, in conjunction with the State Treasury, acts as the trustee of this fund. This fund earns interest quarterly for its share of the equity in the State Treasurer's Common Cash pool. The Department of Community Health distributes interest on a monthly basis to patients meeting minimum balance requirements.

### **MICHIGAN EDUCATION SAVINGS PROGRAM**

Public Act 161 of 2000 established the Michigan Education Savings Program (MESP) as an entity within the Department of Treasury. MESP is a college-tuition savings plan that is designed to collect and invest deposits made by contributors, for purposes of financing tuition on behalf of future students. The State makes no monetary contributions into the program. Investment earnings, held in trust by MESP, are Federal and State tax-deferred until the student is ready to attend college. The State offers a tax deduction for contributions made each year.

# Michigan

## COMBINING STATEMENT OF FIDUCIARY NET ASSETS

### PRIVATE PURPOSE TRUST FUNDS

SEPTEMBER 30, 2004

(In Thousands)

	ESCHEATS FUND	GIFTS, BEQUESTS, AND DEPOSITS INVESTMENT FUND	HOSPITAL PATIENTS' TRUST FUND	MICHIGAN EDUCATION SAVINGS PROGRAM	TOTALS
<b>ASSETS</b>					
Cash	\$ -	\$ 746	\$ 26	\$ 188	\$ 960
Equity in common cash	41,773	27,394	218	-	69,386
Receivables:					
Interest and dividends	-	95	-	48	143
Sale of investments	1,160	-	-	-	1,160
Investments at Fair Value:					
Bonds, notes, mortgages, and preferred stock	-	11,734	-	-	11,734
Common stock	-	86	-	-	86
Mutual funds	-	6	-	623,047	623,053
Guaranteed funding agreements	-	-	-	120,804	120,804
Securities lending collateral	-	1	-	-	1
Other current assets	3,547	2,670	19	738	6,973
Total Assets	\$ 46,481	\$ 42,733	\$ 263	\$ 744,824	\$ 834,300
<b>LIABILITIES</b>					
Warrants outstanding	\$ 1,091	\$ 781	\$ 20	\$ -	\$ 1,891
Accounts payable and other liabilities	19	6,203	6	1,012	7,240
Obligations under security lending	-	1	-	-	1
Total Liabilities	\$ 1,110	\$ 6,985	\$ 26	\$ 1,012	\$ 9,133
<b>NET ASSETS</b>					
Net assets held in trust for other purposes	\$ 45,371	\$ 35,748	\$ 237	\$ 743,812	\$ 825,168

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**PRIVATE PURPOSE TRUST FUNDS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2004  
(In Thousands)

	ESCHEATS FUND	GIFTS, BEQUESTS AND DEPOSITS INVESTMENT FUND	HOSPITAL PATIENTS' TRUST FUND	MICHIGAN EDUCATION SAVINGS PROGRAM	TOTALS
<b>ADDITIONS</b>					
Contributions:					
From participants	\$ -	\$ -	\$ -	\$ 260,920	\$ 260,920
From clients	-	35,828	2,032	-	37,860
From gifts, bequests, and endowments	-	983	-	-	983
Investment Income:					
Net appreciation (depreciation) in fair value of investments	-	22	-	31,017	31,039
Interest, dividends, and other	-	743	3	24,400	25,145
Securities lending income	-	18	-	-	18
Less Investment Expense:					
Investment activity expense	-	-	-	2,714	2,714
Securities lending expense	-	17	-	-	17
Net investment income (loss)	-	766	3	52,703	53,472
Escheated property	22,622	-	-	-	22,622
Miscellaneous income	-	1,664	-	-	1,664
Total Additions	22,622	39,241	2,034	313,624	377,520
<b>DEDUCTIONS</b>					
Benefits paid to participants or beneficiaries	-	-	-	22,277	22,277
Amounts distributed to clients, claimants, or third parties	33,498	38,144	2,027	-	73,668
Administrative expense	5,753	1,032	-	-	6,785
Total Deductions	39,250	39,176	2,027	22,277	102,731
Net increase (decrease)	(16,629)	64	8	291,346	274,789
Net assets held in trust for others - Beginning of fiscal year	62,000	35,683	230	452,466	550,378
Net assets held in trust for others End of fiscal year	\$ 45,371	\$ 35,748	\$ 237	\$ 743,812	\$ 825,168
Reconciliation of Net Increase in Assets:					
Net increase (decrease) in assets held in trust for other purposes	\$ (16,629)	\$ 64	\$ 8	\$ 291,346	\$ 274,789
Total net increase (decrease)	\$ (16,629)	\$ 64	\$ 8	\$ 291,346	\$ 274,789

## AGENCY FUNDS

### ENVIRONMENTAL QUALITY DEPOSITS FUND

This fund was established to account for deposits for which the Department of Environmental Quality has legal custody as provided by various statutes.

### INSURANCE CARRIER DEPOSITS FUND

This fund was administratively established to account for deposits held by the State Treasurer on behalf of insurance carriers who are licensed or authorized to write insurance in the State and are required by P.A. 218 of 1956, as amended, to provide such deposits. All deposits are in the form of various securities and other acceptable assets.

### STATE TREASURER'S ESCROW AND PAYING AGENT FUND

This fund was administratively created and is used to account for investments held in escrow by the State Treasurer as fiscal agent for hospitals, which have defeased Michigan State Hospital Finance Authority (MSHFA) bonds.

### CHILD SUPPORT COLLECTION FUND

This fund was administratively established to account for the activity of the Michigan State Disbursement Unit (MISDU). MISDU, administered by the Family Independence Agency, was created to provide a single location within the State for the receipt and disbursement of child support payments.

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS****AGENCY FUNDS**

SEPTEMBER 30, 2004

(In Thousands)

	ENVIRONMENTAL QUALITY DEPOSITS FUND	INSURANCE CARRIER DEPOSITS FUND	STATE TREASURER'S ESCROW AND PAYING AGENT FUND	CHILD SUPPORT COLLECTION FUND	TOTALS
<b>ASSETS</b>					
Cash	\$ -	\$ -	\$ 4,042	\$ 75,665	\$ 79,707
Equity in common cash	2,875	1,220	-	-	4,095
Investments at Fair Value:					
Short-term investments	-	-	15,070	-	15,070
Bonds, notes, mortgages, and preferred stock	-	-	44,606	-	44,606
Other current assets	-	-	2,209	3,821	6,029
Other noncurrent assets	-	372,614	-	-	372,614
Total Assets	<u>\$ 2,875</u>	<u>\$ 373,834</u>	<u>\$ 65,927</u>	<u>\$ 79,486</u>	<u>\$ 522,122</u>
<b>LIABILITIES</b>					
Warrants outstanding	\$ -	\$ 154	\$ -	\$ -	\$ 154
Accounts payable and other liabilities	2,875	786	18,599	78,188	100,448
Amounts due to other funds	-	-	-	1,298	1,298
Other long-term liabilities	-	372,894	47,328	-	420,222
Total Liabilities	<u>\$ 2,875</u>	<u>\$ 373,834</u>	<u>\$ 65,927</u>	<u>\$ 79,486</u>	<u>\$ 522,122</u>

**Michigan**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND  
LIABILITIES - AGENCY FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

	BALANCE OCTOBER 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 2004
<b>ENVIRONMENTAL QUALITY DEPOSITS FUND</b>				
<b>ASSETS</b>				
Equity in common cash	\$ 3,931	\$ 151	\$ 1,207	\$ 2,875
Total Assets	<u>\$ 3,931</u>	<u>\$ 151</u>	<u>\$ 1,207</u>	<u>\$ 2,875</u>
<b>LIABILITIES</b>				
Accounts payable and other liabilities	\$ 3,931	\$ 151	\$ 1,207	\$ 2,875
Total Liabilities	<u>\$ 3,931</u>	<u>\$ 151</u>	<u>\$ 1,207</u>	<u>\$ 2,875</u>
<b>INSURANCE CARRIER DEPOSITS FUND</b>				
<b>ASSETS</b>				
Equity in common cash	\$ 1,127	\$ 49,660	\$ 49,567	\$ 1,220
Other noncurrent assets	336,062	169,707	133,155	372,614
Total Assets	<u>\$ 337,189</u>	<u>\$ 219,367</u>	<u>\$ 182,722</u>	<u>\$ 373,834</u>
<b>LIABILITIES</b>				
Warrants outstanding	\$ 67	\$ 87	\$ -	\$ 154
Accounts payable and other liabilities	776	49,759	49,750	786
Other long-term liabilities	336,346	657,764	621,216	372,894
Total Liabilities	<u>\$ 337,189</u>	<u>\$ 707,610</u>	<u>\$ 670,965</u>	<u>\$ 373,834</u>
<b>STATE TREASURER'S ESCROW AND PAYING AGENT FUND</b>				
<b>ASSETS</b>				
Cash	\$ 725	\$ 32,700	\$ 29,383	\$ 4,042
Investments at Fair Value:				
Short-term investments	23,758	15,975	24,663	15,070
Bonds, notes, mortgages, and preferred stock	58,917	-	14,311	44,606
Other current assets	3,155	7,637	8,583	2,209
Total Assets	<u>\$ 86,554</u>	<u>\$ 56,312</u>	<u>\$ 76,939</u>	<u>\$ 65,927</u>
<b>LIABILITIES</b>				
Accounts payable and other liabilities	\$ 18,610	\$ 36,889	\$ 36,901	\$ 18,599
Other long-term liabilities	67,944	-	20,616	47,328
Total Liabilities	<u>\$ 86,554</u>	<u>\$ 36,889</u>	<u>\$ 57,517</u>	<u>\$ 65,927</u>

# Michigan

	BALANCE OCTOBER 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 2004
CHILD SUPPORT COLLECTION FUND				
<b>ASSETS</b>				
Cash	\$ 80,852	\$ 1,723,409	\$ 1,728,596	\$ 75,665
Equity in common cash	-	1,697	1,697	-
Other current assets	7,049	3,821	7,049	3,821
Total Assets	<u>\$ 87,900</u>	<u>\$ 1,728,927</u>	<u>\$ 1,737,342</u>	<u>\$ 79,486</u>
<b>LIABILITIES</b>				
Accounts payable and other liabilities	\$ 87,777	\$ 2,041,254	\$ 2,050,843	\$ 78,188
Amounts due to other funds	124	1,974	800	1,298
Total Liabilities	<u>\$ 87,900</u>	<u>\$ 2,043,229</u>	<u>\$ 2,051,643</u>	<u>\$ 79,486</u>
TOTALS - ALL AGENCY FUNDS				
<b>ASSETS</b>				
Cash	\$ 81,576	\$ 1,756,109	\$ 1,757,979	\$ 79,707
Equity in common cash	5,058	51,508	52,471	4,095
Investments at Fair Value:				
Short-term investments	23,758	15,975	24,663	15,070
Bonds, notes, mortgages, and preferred stock	58,917	-	14,311	44,606
Other current assets	10,204	11,457	15,632	6,029
Other noncurrent assets	336,062	169,707	133,155	372,614
Total Assets	<u>\$ 515,575</u>	<u>\$ 2,004,757</u>	<u>\$ 1,998,210</u>	<u>\$ 522,122</u>
<b>LIABILITIES</b>				
Warrants outstanding	\$ 67	\$ 87	\$ -	\$ 154
Accounts payable and other liabilities	111,094	2,128,054	2,138,700	100,448
Amounts due to other funds	124	1,974	800	1,298
Other long-term liabilities	404,290	657,764	641,832	420,222
Total Liabilities	<u>\$ 515,575</u>	<u>\$ 2,787,879</u>	<u>\$ 2,781,332</u>	<u>\$ 522,122</u>

## COMPONENT UNITS – AUTHORITIES

### MACKINAC BRIDGE AUTHORITY

Public Act 21 of 1950 created the Mackinac Bridge Authority (MBA). Public Act 214 of 1952, as amended, empowered MBA to construct and operate a bridge between the lower and upper peninsulas of Michigan. Fares and earnings on investments finance the operation and maintenance of the bridge. State statutes require that MBA continue charging bridge tolls and repay State funds for all the subsidies provided in prior years.

### MACKINAC ISLAND STATE PARK COMMISSION

Public Act 355 of 1927, as amended, established the Mackinac Island State Park Commission. The Governor, with the advice and consent of the Senate, appoints the seven-member commission. The Commission is responsible for the management of the Mackinac Island and Michilimackinac State Parks and has the authority to issue revenue-dedicated bonds.

### MICHIGAN BROADBAND DEVELOPMENT AUTHORITY

Public Act 49 of 2002 created the Michigan Broadband Development Authority (MBDA). The MBDA is a state financing authority that will assist in the build out and utilization of high-speed broadband internet service and infrastructure across the state. It is the responsibility of the authority to remain financially self-sufficient by generating revenues from project lending and joint venture activity.

MBDA's 11-member governing board consists of the President and CEO of MBDA, the Vice President of MBDA, the State Treasurer, the Executive Director of the Michigan State Housing Development Authority, the head of the Michigan Economic Development Corporation and six fixed-term Governor appointed members.

### MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

The Michigan Economic Development Corporation (MEDC), under Article VII, Section 28 of the Michigan State Constitution of 1963 and P.A. 7 of the 1967 extra session, is a public body corporation. Created by a ten-year contract (inter-local agreement) between participating local economic development corporations formed under P.A. 338 of 1974 and the Michigan Strategic Fund, MEDC is a separate legal entity whose purpose is to stimulate, coordinate and advance economic development in the State. Under the terms of the agreement, the governance of MEDC resides in an executive committee of 17 members appointed to eight-year, staggered terms.

### MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY

Public Act 77 of 1960, as amended, created the Michigan Higher Education Assistance Authority (MHEAA). It is governed by a 16-member board, appointed by the Governor, with the advice and consent of the Senate. MHEAA is empowered to guarantee 100% of principal and interest on loans to persons (or their parents) attending eligible post-secondary educational institutions in Michigan and to administer scholarship and grant programs in accordance with State laws. The federal government reimburses MHEAA for losses on purchased loans at varying percentages depending upon rates of defaults. Revenues consist of recovery of loan losses, federal reimbursement, loan guarantee fees, and investment income.

### MICHIGAN HIGHER EDUCATION FACILITIES AUTHORITY

Public Act 295 of 1969, as amended, authorized the creation of the Michigan Higher Education Facilities Authority (MHEFA) for the purpose of assisting private nonprofit institutions of higher education in financing their facilities. MHEFA consists of an eleven-member commission, nine are appointed by the Governor with the advice and consent of the Senate and two are ex officio (the Superintendent of Public Instruction and Director of the Department of Management and Budget). Financing for capital improvements is provided by issuance of limited obligation revenue bonds, however these bonds do not constitute an obligation of the State or MHEFA, therefore no liabilities have been recorded. Annual service fees to higher education institutions finance MHEFA's administrative operations.

### MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY

Public Act 222 of 1975, as amended, authorized the establishment of the Michigan Higher Education Student Loan Authority (MHESLA) to make loans to qualified students (or their parents) attending participating institutions of higher education. MHESLA may issue revenue-dedicated debt in principal amounts necessary to provide funds for achieving its purpose. A board comprised of the same members as Michigan Higher Education Assistance Authority governs MHESLA. The Governor, with the consent of the Senate, appoints the 16 members. The State Treasurer, an ex officio member, serves as chairman of the board.

**MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY**

The Michigan Public Educational Facilities Authority was organized by Executive Order 2002-3. The Authority was created in response to the passage of the federal Economic Growth and Tax Relief Reconciliation Act of 2001. This act authorizes the issuance of "qualified public educational facility bonds" as tax exempt facility bonds.

The Authority partners with other states to facilitate the acquisition of capital for the construction, rehabilitation, refurbishing or equipping of qualified public educational facilities.

**MICHIGAN STATE HOSPITAL FINANCE AUTHORITY**

The Michigan State Hospital Finance Authority (MSHFA) was organized under P.A. 38 of 1969, as amended, to lend money to nonprofit, nonpublic hospitals and health-care corporations for capital improvements or debt refinancing. The Act also empowers MSHFA to sell bonds and to enter into loan and other agreements to obtain the necessary funds for such loans. MSHFA is comprised of seven members including a chairperson and four public members appointed by the Governor with the advice and consent of the Senate, and two members ex officio (the State Treasurer and the Director of the Department of Community Health). Some of MSHFA's revenue and mortgage bonds have been defeased by the various borrowers by placing proceeds of new bonds in an escrow with the State Treasurer or trustee as escrow agent. Such defeased bonds and related investments are reported in the State Treasurer's Escrow and Paying Agent Fund.

MSHFA no longer performs trustee, fiscal agent, registrar, and paying agent functions for bonds payable. The bonds and related assets have been transferred to financial institutions' trust departments. Since these obligations are, in substance, debts of other entities, MSHFA does not reflect the liabilities, assets, revenues and expenditures related to these bonds in its financial statements.

**MICHIGAN STRATEGIC FUND**

The Michigan Strategic Fund (MSF) is a public body corporation and politic created by P.A. 270 of 1984 to help diversify the economy of the State and to provide for economic development, primarily by assisting business enterprises to obtain additional sources of financing. Executive Order 1999-1, as amended, transferred all of the economic development functions of the former Department of Commerce and the Michigan Jobs Commission to MSF. The order further placed MSF as an autonomous entity in the Department of Management and Budget. Executive Order 2003-18 transferred MSF from the Department of Management and Budget to the Department of Labor and Economic Growth, where it remains an autonomous entity. MSF is governed by a board of nine members, consisting of the directors of the State Departments of Labor and Economic Growth and Treasury plus seven members appointed by the Governor with the advice and consent of the Senate.

**STATE BAR OF MICHIGAN**

The State Bar of Michigan is an association of lawyers who are licensed to practice in Michigan. It is organized as a public body corporate. Its financial support comes solely from member dues and income from member services. The State Bar's budget is the responsibility of its Board of Commissioners, and it is not subject to State of Michigan appropriation procedures.

**COMBINING STATEMENT OF NET ASSETS**  
**NON-MAJOR COMPONENT UNITS**  
**AUTHORITIES**  
 SEPTEMBER 30, 2004  
 (In Thousands)

	MACKINAC BRIDGE AUTHORITY	MACKINAC ISLAND STATE PARK COMMISSION	MICHIGAN BROADBAND DEVELOPMENT AUTHORITY	MICHIGAN ECONOMIC DEVELOPMENT CORPORATION	MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY
<b>ASSETS</b>					
Current Assets:					
Cash	\$ 670	\$ 782	\$ 2,277	\$ 4,755	\$ 2,388
Equity in common cash	-	-	-	74,125	-
Amounts due from primary government	-	680	-	-	124
Amounts due from federal government	-	-	-	375	2,282
Inventories	-	727	-	-	-
Investments	25,674	317	17	22,796	16,494
Other current assets	321	57	254	2,676	376
Total Current Assets	<u>26,665</u>	<u>2,562</u>	<u>2,548</u>	<u>104,728</u>	<u>21,664</u>
Restricted Assets:					
Cash and cash equivalents	-	792	-	5,615	-
Investments	-	2,786	-	7,628	-
Mortgages and loans receivable	-	-	3,626	35,945	-
Investments	-	-	-	23,611	-
Capital Assets:					
Land and other non-depreciable assets	125	337	-	-	-
Buildings, equipment, and other depreciable assets	8,341	9,123	-	16,422	1,835
Less accumulated depreciation	(3,341)	(5,851)	-	(4,480)	(444)
Infrastructure	102,621	-	-	-	-
Total capital assets	<u>107,746</u>	<u>3,610</u>	<u>-</u>	<u>11,941</u>	<u>1,391</u>
Other noncurrent assets	-	-	-	-	-
Total Assets	<u>\$ 134,411</u>	<u>\$ 9,750</u>	<u>\$ 6,174</u>	<u>\$ 189,469</u>	<u>\$ 23,056</u>
<b>LIABILITIES</b>					
Current Liabilities:					
Warrants outstanding	\$ -	\$ -	\$ -	\$ 391	\$ -
Accounts payable and other liabilities	2,492	66	164	11,760	1
Amounts due to primary government	1,261	-	-	126	22
Bonds and notes payable	-	235	-	-	-
Interest payable	-	15	3,812	-	-
Deferred revenue	734	65	19	475	-
Current portion of other long-term obligations	250	-	56	3,542	21
Total Current Liabilities	<u>4,737</u>	<u>381</u>	<u>4,050</u>	<u>16,293</u>	<u>44</u>
Bonds and notes payable	-	1,801	13,574	-	-
Noncurrent portion of other long-term obligations	217	-	157	6,547	420
Total Liabilities	<u>\$ 4,954</u>	<u>\$ 2,182</u>	<u>\$ 17,781</u>	<u>\$ 22,840</u>	<u>\$ 464</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	\$ 107,746	\$ 1,573	\$ -	\$ 11,941	\$ 1,391
Restricted For:					
Construction and debt service	-	1,005	-	-	-
Other purposes	-	3,630	2	-	21,200
Unrestricted	<u>21,711</u>	<u>1,360</u>	<u>(11,609)</u>	<u>154,687</u>	<u>-</u>
Total Net Assets	<u>\$ 129,457</u>	<u>\$ 7,568</u>	<u>\$ (11,607)</u>	<u>\$ 166,628</u>	<u>\$ 22,591</u>

# Michigan

MICHIGAN HIGHER EDUCATION FACILITIES AUTHORITY	MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY	MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY	MICHIGAN STATE HOSPITAL FINANCE AUTHORITY	MICHIGAN STRATEGIC FUND	STATE BAR OF MICHIGAN	TOTALS
\$ -	\$ 59,035	\$ 5,026	\$ 461	\$ 50	\$ 3,188	\$ 78,631
-	-	-	-	774	-	74,899
418	-	-	40	-	-	1,263
-	-	-	-	11,379	-	14,036
-	-	-	-	-	-	727
-	252,857	-	1,794	-	3,330	323,278
31	173,892	16,218	973	13	536	195,347
449	485,784	21,244	3,268	12,216	7,054	688,181
-	-	-	-	-	-	6,407
-	-	-	125	-	-	10,539
-	1,184,941	-	-	-	-	1,224,512
-	368,695	-	2,465	-	-	394,772
-	-	-	-	-	381	843
-	-	-	64	-	10,808	46,592
-	-	-	(46)	-	(4,540)	(18,702)
-	-	-	-	-	-	102,621
-	-	-	18	-	6,648	131,355
-	16,882	-	-	-	-	16,882
\$ 449	\$ 2,056,303	\$ 21,244	\$ 5,876	\$ 12,216	\$ 13,702	\$ 2,472,648
\$ -	\$ -	\$ -	\$ -	\$ 725	\$ -	\$ 1,116
-	1,657	3	31	11,166	665	28,004
-	197	325	-	14	-	1,945
-	23,790	16,356	-	-	245	40,626
-	4,382	38	-	-	-	8,246
-	-	-	-	246	1,300	2,838
-	366	-	-	-	-	4,235
-	30,392	16,721	31	12,150	2,210	87,009
-	1,836,650	-	-	-	2,873	1,854,898
-	58,371	-	428	-	-	66,140
\$ -	\$ 1,925,413	\$ 16,721	\$ 459	\$ 12,150	\$ 5,083	\$ 2,008,047
\$ -	\$ -	\$ -	\$ 18	\$ -	\$ 3,530	\$ 126,200
-	9,365	-	-	-	-	10,371
-	-	4,845	-	-	-	29,677
449	121,525	(323)	5,399	66	5,089	298,353
\$ 449	\$ 130,890	\$ 4,522	\$ 5,417	\$ 66	\$ 8,619	\$ 464,601

**COMBINING STATEMENT OF ACTIVITIES**  
**NON-MAJOR COMPONENT UNITS - AUTHORITIES**  
FISCAL YEAR ENDED SEPTEMBER 30, 2004  
(In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	NET (EXPENSE) REVENUE
Mackinac Bridge Authority	\$ 11,270	\$ 15,707	\$ -	\$ -	\$ 4,437
Mackinac Island State Park Commission	4,151	4,064	157	-	69
Michigan Broadband Development Authority	4,072	101	81	-	(3,890)
Michigan Economic Development Corporation	113,616	-	53,843	-	(59,773)
Michigan Higher Education Assistance Authority	143,640	17,173	127,576	-	1,109
Michigan Higher Education Facilities Authority	99	117	-	-	18
Michigan Higher Education Student Loan Authority	56,824	64,488	-	-	7,663
Michigan Public Educational Facilities Authority	577	66	-	-	(511)
Michigan State Hospital Finance Authority	1,064	951	-	-	(112)
Michigan Strategic Fund	87,660	1,338	35,989	-	(50,334)
State Bar of Michigan	10,278	11,128	63	-	913
Total	<u>\$ 433,252</u>	<u>\$ 115,133</u>	<u>\$ 217,708</u>	<u>\$ -</u>	<u>\$ (100,411)</u>

# Michigan

GENERAL REVENUES						
INTEREST AND INVESTMENT EARNINGS (LOSS)	PAYMENTS FROM STATE OF MICHIGAN	OTHER	SPECIAL ITEMS	CHANGE IN NET ASSETS	NET ASSETS BEGINNING OF YEAR	NET ASSETS END OF YEAR
\$ 258	\$ -	\$ -	\$ -	\$ 4,695	\$ 124,762	\$ 129,457
72	-	-	-	142	7,426	7,568
17	-	2	-	(3,871)	(7,735)	(11,607)
2,595	-	2,955	-	(54,223)	220,852	166,628
-	-	-	-	1,109	21,483	22,591
5	-	-	-	23	427	449
3,906	-	-	-	11,570	119,320	130,890
318	-	537	-	344	4,178	4,522
35	-	-	-	(78)	5,495	5,417
-	47,987	2,356	-	9	56	66
279	-	-	-	1,192	7,427	8,619
<u>\$ 7,486</u>	<u>\$ 47,987</u>	<u>\$ 5,850</u>	<u>\$ -</u>	<u>\$ (39,089)</u>	<u>\$ 503,690</u>	<u>\$ 464,601</u>



## COMPONENT UNITS – STATE UNIVERSITIES

The State has thirteen legally separate public universities, ten of which are included in this report as component units and three of which are excluded. Included are the ten universities whose governing boards are appointed by the Governor and for which the State is legally accountable, as prescribed by GASB Statement No. 14. Excluded are those three that have governing boards whose members are elected by the voters and, therefore, considered separate special purpose governments. The three that are excluded are the largest public universities: Michigan State University, University of Michigan, and Wayne State University. Also excluded are the public community colleges, for which local units of government are legally accountable.

The information presented in this report for the ten universities is based upon their separately issued financial statements for the fiscal year ended on June 30, 2004. The universities include Central Michigan University and Western Michigan University presented as major component units and the following non-major component units: Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, and Saginaw Valley State University.

**COMBINING STATEMENT OF NET ASSETS**  
**NON-MAJOR COMPONENT UNITS**  
**STATE UNIVERSITIES**

JUNE 30, 2004

(In Thousands)

	<u>EASTERN MICHIGAN UNIVERSITY</u>	<u>FERRIS STATE UNIVERSITY</u>	<u>GRAND VALLEY STATE UNIVERSITY</u>	<u>LAKE SUPERIOR STATE UNIVERSITY</u>
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 54,959	\$ 14,689	\$ 9,428	\$ 7,402
Amounts due from component units	-	-	-	-
Amounts due from primary government	18,362	8,963	28,243	3,280
Amounts due from federal government	2,479	1,145	1,357	271
Amounts due from local units	-	-	-	-
Inventories	721	970	1,546	398
Investments	-	22,756	7,485	-
Other current assets	18,912	3,039	9,533	1,090
Total Current Assets	<u>95,433</u>	<u>51,561</u>	<u>57,592</u>	<u>12,441</u>
Restricted Assets:				
Cash and cash equivalents	-	-	128	850
Investments	76,778	11,660	7,760	3,050
Mortgages and loans receivable	10,945	18,407	8,760	-
Mortgages and loans receivable	-	-	-	2,721
Investments	-	30,264	91,662	5,818
Capital Assets:				
Land and other non-depreciable assets	10,640	4,362	28,654	2,025
Buildings, equipment, and other depreciable assets	469,707	338,673	481,334	122,293
Less accumulated depreciation	(198,917)	(132,722)	(114,832)	(61,691)
Construction in progress	10,463	1,675	38,080	14,753
Total capital assets	<u>291,894</u>	<u>211,987</u>	<u>433,236</u>	<u>77,380</u>
Other noncurrent assets	<u>3,583</u>	<u>2,056</u>	<u>3,610</u>	<u>-</u>
Total Assets	<u>\$ 478,633</u>	<u>\$ 325,936</u>	<u>\$ 602,748</u>	<u>\$ 102,259</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and other liabilities	\$ 24,012	\$ 10,021	\$ 35,739	\$ 2,438
Amounts due to primary government	538	74	40	123
Bonds and notes payable	3,111	2,455	5,983	805
Interest payable	1,041	978	1,428	196
Deferred revenue	7,357	5,066	10,650	853
Current portion of other long-term obligations	1	250	2,543	615
Total Current Liabilities	<u>36,061</u>	<u>18,844</u>	<u>56,384</u>	<u>5,030</u>
Deferred revenue	660	918	-	-
Bonds and notes payable	137,758	79,355	137,173	30,210
Noncurrent portion of other long-term obligations	<u>6,775</u>	<u>5,691</u>	<u>1,535</u>	<u>1,548</u>
Total Liabilities	<u>\$ 181,254</u>	<u>\$ 104,809</u>	<u>\$ 195,092</u>	<u>\$ 36,788</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 192,513	\$ 136,932	\$ 296,149	\$ 50,544
Restricted For:				
Education	-	20,685	15,003	6,939
Construction and debt service	22,934	-	(10,880)	851
Other purposes	15,689	-	-	3,011
Funds Held as Permanent Investments:				
Expendable	-	3,205	16,465	-
Nonexpendable	38,572	11,660	19,329	3,505
Unrestricted	<u>27,671</u>	<u>48,645</u>	<u>71,590</u>	<u>622</u>
Total Net Assets	<u>\$ 297,379</u>	<u>\$ 221,127</u>	<u>\$ 407,656</u>	<u>\$ 65,471</u>

# Michigan

MICHIGAN TECHNOLOGICAL UNIVERSITY	NORTHERN MICHIGAN UNIVERSITY	OAKLAND UNIVERSITY	SAGINAW VALLEY STATE UNIVERSITY	TOTALS
\$ 43,483	\$ 11,888	\$ 32,414	\$ 17,164	\$ 191,428
-	239	-	-	239
10,490	19,266	8,417	13,597	110,618
1,973	1,230	1,771	1,085	11,310
-	144	84	-	228
1,234	1,301	252	695	7,117
-	-	-	8	30,248
14,393	6,516	8,558	3,867	65,908
<u>71,573</u>	<u>40,584</u>	<u>51,495</u>	<u>36,417</u>	<u>417,096</u>
7,155	-	129	-	8,262
60,835	18,713	-	-	178,797
-	-	-	-	38,112
11,554	7,292	1,741	81	23,388
-	26,996	62,992	25,970	243,703
12,902	4,795	4,325	2,377	70,080
317,960	270,691	358,759	300,441	2,659,859
(167,874)	(99,101)	(127,131)	(86,847)	(989,116)
28,976	23,960	658	3,036	121,600
<u>191,964</u>	<u>200,344</u>	<u>236,611</u>	<u>219,007</u>	<u>1,862,423</u>
<u>6,585</u>	<u>1,215</u>	<u>6,674</u>	<u>3,444</u>	<u>27,167</u>
<u>\$ 349,666</u>	<u>\$ 295,145</u>	<u>\$ 359,642</u>	<u>\$ 284,919</u>	<u>\$ 2,798,948</u>
\$ 14,565	\$ 14,299	\$ 11,249	\$ 11,131	\$ 123,456
749	115	281	-	1,920
280	1,810	2,894	1,380	18,718
387	-	285	-	4,316
2,489	3,317	4,974	3,471	38,178
2,970	1,452	2,354	167	10,352
<u>21,441</u>	<u>20,992</u>	<u>22,037</u>	<u>16,149</u>	<u>196,939</u>
-	-	1,705	-	3,284
48,470	66,090	93,700	72,480	665,236
6,259	12,082	2,366	1,920	38,176
<u>\$ 76,170</u>	<u>\$ 99,165</u>	<u>\$ 119,809</u>	<u>\$ 90,549</u>	<u>\$ 903,635</u>
\$ 169,023	\$ 137,635	\$ 146,550	\$ 145,654	\$ 1,275,001
55,075	22,674	19,824	5,253	145,453
-	-	-	57	12,963
-	-	-	-	18,699
-	-	7,272	-	26,942
39,000	-	10,903	22,794	145,763
10,398	35,672	55,284	20,612	270,493
<u>\$ 273,496</u>	<u>\$ 195,980</u>	<u>\$ 239,834</u>	<u>\$ 194,370</u>	<u>\$ 1,895,313</u>

**COMBINING STATEMENT OF ACTIVITIES**  
**NON-MAJOR COMPONENT UNITS - STATE UNIVERSITIES**  
FISCAL YEAR ENDED JUNE 30, 2004  
(In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	NET (EXPENSE) REVENUE
Eastern Michigan University	\$ 271,973	\$ 174,163	\$ 19,142	\$ 810	\$ (77,859)
Ferris State University	172,680	105,338	18,372	-	(48,969)
Grand Valley State University	230,428	145,619	29,298	9,778	(45,732)
Lake Superior State University	44,542	22,286	8,025	10,721	(3,509)
Michigan Technological University	164,204	65,574	30,457	36,807	(31,367)
Northern Michigan University	127,794	62,859	19,929	620	(44,387)
Oakland University	165,498	100,767	24,266	6,820	(33,644)
Saginaw Valley State University	85,297	47,357	12,347	-	(25,593)
Total	<u>\$ 1,262,415</u>	<u>\$ 723,963</u>	<u>\$ 161,835</u>	<u>\$ 65,557</u>	<u>\$ (311,060)</u>

GENERAL REVENUES					
INTEREST AND INVESTMENT EARNINGS (LOSS)	PAYMENTS FROM STATE OF MICHIGAN	OTHER	CHANGE IN NET ASSETS	NET ASSETS BEGINNING OF YEAR RESTATED	NET ASSETS END OF YEAR
\$ 2,045	\$ 78,202	\$ 3,842	\$ 6,230	\$ 291,149	\$ 297,379
2,872	52,426	7,627	13,956	207,171	221,127
2,783	63,677	4,533	25,260	382,395	407,656
1,092	12,430	-	10,012	55,459	65,471
340	47,591	-	16,564	256,932	273,496
4,120	60,049	-	19,782	176,198	195,980
3,787	47,330	-	17,473	222,361	239,834
3,097	32,510	534	10,549	183,821	194,370
<u>\$ 20,135</u>	<u>\$ 394,216</u>	<u>\$ 16,536</u>	<u>\$ 119,827</u>	<u>\$ 1,775,487</u>	<u>\$ 1,895,313</u>

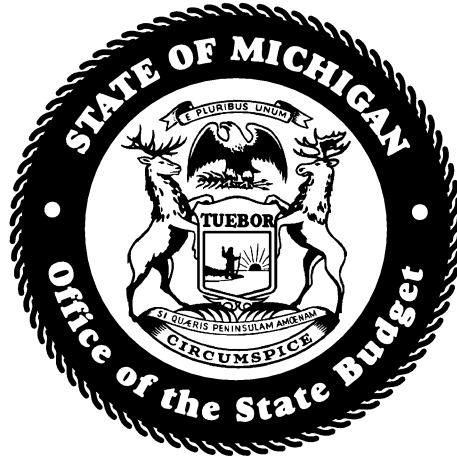




Capitol Rotunda



First Floor Corridor in Capitol



### III STATISTICAL SECTION

**COMBINED SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES**  
**GENERAL AND SPECIAL REVENUE FUNDS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2004  
(In Thousands)

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUNDS</u>
<b>TAXES</b>			
Sales	\$ 6,473,522	\$ 1,691,869	\$ 4,781,653
Personal income	6,576,065	4,682,708	1,893,357
Single business	1,841,010	1,841,010	-
Use	1,316,504	877,414	439,091
State education (property)	1,824,493	-	1,824,493
Real estate transfer	317,480	-	317,480
Tobacco products	992,793	507,639	485,154
Beer and wine	51,511	51,511	-
Liquor	97,913	65,508	32,405
Horse race wagering	11,825	11,825	-
Casino gaming wagering	99,455	3,673	95,781
Intangibles	66	66	-
Estate and inheritance	75,543	75,543	-
Telephone and telegraph company	101,315	101,315	-
Commercial mobile radio service	28,561	28,561	-
Insurance company	230,272	230,272	-
Motor vehicle registration	934,309	487	933,822
Gasoline	932,689	-	932,689
Aviation fuel	7,721	-	7,721
Diesel fuel	140,849	-	140,849
Gas and oil severance	58,220	58,220	-
Industrial facilities	150,159	-	150,159
Convention hotel accommodation	16,179	16,179	-
Airport parking	14,836	14,836	-
Quality assurance assessment	325,188	325,188	-
Penalties and interest	104,432	104,432	-
Other	77,018	1,598	75,420
	<u>22,799,928</u>	<u>10,689,854</u>	<u>12,110,074</u>
<b>FROM FEDERAL AGENCIES</b>			
Department of Health and Human Services	7,255,854	7,254,404	1,450
Department of Education	1,179,648	204,767	974,880
Department of Agriculture	1,421,626	1,142,015	279,611
Department of Labor	314,144	193,248	120,896
Department of Housing and Urban Development	6,433	6,433	-
Department of Energy	18,536	18,536	-
Department of Transportation	964,850	23,396	941,454
Department of Interior	19,260	17,922	1,339
Department of Defense	24,329	24,329	-
Department of Justice	77,946	77,946	-
Environmental Protection Agency	42,775	41,921	854
General Services Administration	3,143	3,143	-
Other	250,844	250,844	-
	<u>11,579,388</u>	<u>9,258,903</u>	<u>2,320,484</u>
<b>FROM LOCAL AGENCIES</b>			
Counties	103,273	90,078	13,194
Cities, villages, and townships	23,088	124	22,964
School districts	1,018	1,018	-
Multi-level governmental units	4,703	-	4,703
Other	107,733	18,332	89,401
	<u>239,815</u>	<u>109,553</u>	<u>130,262</u>
<b>SPECIAL MEDICAID REIMBURSEMENTS</b>	<u>704,551</u>	<u>704,551</u>	<u>-</u>
	704,551	704,551	-

# Michigan

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUNDS</u>
<b>FROM SERVICES</b>			
Charges for furnishing vehicle driver records	\$ 37,718	\$ 37,718	\$ -
Revenue for patient, ward, and inmate care	35,924	35,924	-
Other	74,498	74,041	457
	<u>148,140</u>	<u>147,683</u>	<u>457</u>
<b>FROM LICENSES AND PERMITS</b>			
Liquor retailers', manufacturers', and wholesalers' licenses	13,079	13,079	-
Motor vehicle operators' and chauffeurs' licenses	66,634	52,737	13,896
Examination fees - financial institutions and insurance industry	21,451	21,451	-
Concession and privilege fees - State parks	651	-	651
Motor vehicle related	130,465	79,110	51,355
Hunting, fishing, and trapping licenses	48,304	-	48,304
Public utility assessment fees	15,389	15,389	-
Labor and Economic Growth licenses and permits	90,187	77,657	12,529
Auto repair facilities and mechanics licenses and fees	4,267	4,267	-
Corporation franchise fees	19,344	19,344	-
Other	146,089	95,949	50,139
	<u>555,858</u>	<u>378,983</u>	<u>176,875</u>
<b>MISCELLANEOUS</b>			
Income from investments	29,569	4,253	25,316
Tobacco settlement proceeds	273,577	3,036	270,540
Various fines, fees, and assessments	77,000	48,321	28,679
Court fines, fees, and assessments	157,484	148,965	8,518
Oil and gas royalties, fees, assignments, and rentals	9,252	4,457	4,795
Environmental pollution settlements	11,912	2,985	8,927
State Fair revenue	5,861	5,861	-
Child support	42,480	42,480	-
Other	502,495	285,124	217,371
	<u>1,109,630</u>	<u>545,483</u>	<u>564,146</u>
Total Revenues	<u>37,137,308</u>	<u>21,835,010</u>	<u>15,302,298</u>
<b>OTHER FINANCING SOURCES</b>			
Proceeds from bond issues and bond anticipation notes	405,881	-	405,881
Capital lease acquisitions	19,661	19,661	-
Proceeds from sale of capital assets	11,513	4,609	6,903
Transfers From Other Funds:			
From Liquor Purchase Revolving Fund	144,180	144,180	-
From State Lottery Fund	658,076	13,193	644,883
From other funds	1,909,646	355,532	1,554,115
Total Other Financing Sources	<u>3,148,956</u>	<u>537,175</u>	<u>2,611,782</u>
Total Revenue and Other Financing Sources (GAAP Basis)	<u>\$ 40,286,264</u>	<u>\$ 22,372,185</u>	<u>\$ 17,914,080</u>

**Michigan**

**SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES**

**GENERAL FUND**

FISCAL YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL PURPOSE</u>	<u>RESTRICTED REVENUES</u>
<b>TAXES</b>			
Sales	\$ 1,691,869	\$ 374,833	\$ 1,317,037
Personal income	4,682,708	3,909,095	773,614
Single business	1,841,010	1,826,561	14,450
Use	877,414	877,381	32
Tobacco products	507,639	242,704	264,934
Beer and wine	51,511	51,511	-
Liquor	65,508	32,993	32,516
Horse race wagering	11,825	2,025	9,800
Casino gaming wagering	3,673	3,214	459
Intangibles	66	66	-
Estate and inheritance	75,543	75,541	2
Telephone and telegraph company	101,315	101,315	-
Commercial mobile radio service	28,561	-	28,561
Insurance company	230,272	230,270	2
Motor vehicle registration	487	-	487
Gas and oil severance	58,220	57,070	1,150
Convention hotel accommodation	16,179	-	16,179
Airport parking	14,836	11	14,825
Quality assurance assessment	325,188	-	325,188
Penalties and interest	104,432	95,752	8,680
Other	1,598	1,163	435
	<u>10,689,854</u>	<u>7,881,503</u>	<u>2,808,351</u>
<b>FROM FEDERAL AGENCIES</b>			
Department of Health and Human Services	7,254,404	64,160	7,190,243
Department of Education	204,767	5,014	199,753
Department of Agriculture	1,142,015	1,705	1,140,310
Department of Labor	193,248	644	192,604
Department of Housing and Urban Development	6,433	528	5,905
Department of Energy	18,536	54	18,482
Department of Transportation	23,396	305	23,091
Department of Interior	17,922	133	17,789
Department of Defense	24,329	31	24,298
Department of Justice	77,946	304	77,642
Environmental Protection Agency	41,921	4,509	37,411
General Services Administration	3,143	-	3,143
Other	250,844	170,966	79,879
	<u>9,258,903</u>	<u>248,354</u>	<u>9,010,550</u>
<b>FROM LOCAL AGENCIES</b>			
Counties	90,078	2,565	87,513
Cities, villages, and townships	124	-	124
School districts	1,018	-	1,018
Other	18,332	374	17,958
	<u>109,553</u>	<u>2,939</u>	<u>106,614</u>
<b>SPECIAL MEDICAID REIMBURSEMENTS</b>	<u>704,551</u>	<u>-</u>	<u>704,551</u>
	704,551	-	704,551
<b>FROM SERVICES</b>			
Charges for vehicle driver records	37,718	11,113	26,605
Revenue for patient, ward, and inmate care	35,924	239	35,684
Other	74,041	6,491	67,550
	<u>147,683</u>	<u>17,843</u>	<u>129,840</u>

# Michigan

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL PURPOSE</u>	<u>RESTRICTED REVENUES</u>
<b>FROM LICENSES AND PERMITS</b>			
Liquor retailers', manufacturers', and wholesalers' licenses	\$ 13,079	\$ -	\$ 13,079
Motor vehicle operators' and chauffeurs' licenses	52,737	23,504	29,234
Examination fees - financial institutions and insurance industry	21,451	(118)	21,569
Motor vehicle related	79,110	13,284	65,826
Public utility assessment fees	15,389	(68)	15,457
Labor and Economic Growth licenses and permits	77,657	6,629	71,028
Auto repair facilities and mechanics licenses and fees	4,267	32	4,236
Corporation franchise fees	19,344	7,676	11,668
Other	95,949	4,243	91,706
	<u>378,983</u>	<u>55,181</u>	<u>323,802</u>
<b>MISCELLANEOUS</b>			
Income from investments	4,253	233	4,020
Various fines, fees, and assessments	48,321	1,016	47,306
Court fines, fees, and assessments	148,965	20,881	128,085
Oil and gas royalties, fees, assignments, and rentals	4,457	-	4,457
Environmental pollution settlements	2,985	-	2,985
Tobacco settlement proceeds	3,036	3,036	-
State Fair revenue	5,861	-	5,861
Child support	42,480	19	42,461
Other	285,124	140,103	145,020
	<u>545,483</u>	<u>165,288</u>	<u>380,196</u>
 Total Revenues	 <u>21,835,010</u>	 <u>8,371,108</u>	 <u>13,463,902</u>
<b>OTHER FINANCING SOURCES</b>			
Capital lease acquisitions	19,661	-	19,661
Proceeds from sale of capital assets	4,609	-	4,609
Transfers From Other Funds:			
From Liquor Purchase Revolving Fund	144,180	139,445	4,734
From State Lottery Fund	13,193	12,203	990
From other funds	355,532	193,005	162,526
	<u>537,175</u>	<u>344,654</u>	<u>192,521</u>
 Total Other Financing Sources	 <u>537,175</u>	 <u>344,654</u>	 <u>192,521</u>
 Total Revenue and Other Financing Sources (GAAP Basis)	 <u>22,372,185</u>	 <u>8,715,762</u>	 <u>13,656,423</u>
<b>BUDGETARY BASIS ADJUSTMENTS</b>			
Capital lease acquisitions	(19,661)	-	(19,661)
 Total Revenue and Other Financing Sources (budgetary basis)	 <u>\$ 22,352,524</u>	 <u>\$ 8,715,762</u>	 <u>\$ 13,636,762</u>

# Michigan

## SOURCE AND DISPOSITION OF GENERAL FUND AUTHORIZATIONS

FISCAL YEAR ENDED SEPTEMBER 30, 2004

(In Thousands)

BRANCH AND DEPARTMENT	CURRENT LEGISLATIVE APPROPRIATION	BUDGETARY TRANSFERS IN/OUT	BUDGETARY ADJUSTMENT	UNEXPENDED FROM PRIOR YEAR	RESTRICTED REVENUE ADDITIONS	LESS: TIMING DIFFERENCES* RESTRICTED REVENUE NOT AUTHORIZED/USED
Legislative Branch	\$ 114,073	\$ -	\$ 263	\$ 10,922	\$ 4,934	\$ (54)
Judicial Branch	160,216	-	-	21,687	84,445	(13,798)
Executive Branch:						
Agriculture	30,259	2,025	-	9,025	60,877	(8,601)
Attorney General	30,260	-	-	4,042	24,667	(3,945)
Civil Rights	11,720	-	-	-	867	-
Civil Service	7,833	-	-	1,449	16,623	-
Colleges and Universities Grants	1,833,570	-	-	5	4,424	-
Community Health	2,609,169	1,415	675	50,417	7,344,290	(92,081)
Corrections	1,601,971	-	-	43,449	58,227	(8,653)
Education	406,860	-	-	3,453	50,493	(3,409)
Environmental Quality	53,581	-	1,034	107,231	111,704	(91,715)
Executive Office	4,860	-	-	-	-	-
Family Independence Agency	1,081,141	2,357	26,911	30,847	2,850,695	-
History, Arts & Libraries	44,202	-	-	3,296	11,831	(575)
Labor and Economic Growth	81,372	(3,084)	3,048	104,999	661,958	(131,634)
Management and Budget	333,861	113	1,609	82,971	167,506	(47,543)
Military and Veterans Affairs	36,329	-	-	5,705	64,938	(4,681)
Natural Resources	31,339	-	94	22,025	48,616	(23,072)
State	26,447	-	-	16,037	142,499	(4,313)
State Police	235,834	(802)	-	34,235	166,232	(28,773)
Transportation	(4,100)	-	-	7,772	-	-
Treasury	110,516	-	-	151,023	2,304,229	(86,590)
Payroll expenditure adjustment	-	-	-	-	8,500	-
Intrafund expenditure reimbursements	-	-	-	-	-	-
<b>TOTAL</b>	<b>\$ 8,841,311</b>	<b>\$ 2,025</b>	<b>\$ 33,634</b>	<b>\$ 710,590</b>	<b>\$ 14,188,553</b>	<b>\$ (549,437)</b>

\* Timing differences are subtracted from Gross Spending Authority in order to show an annualized Budget that is comparable to the current year's Actual uses. Timing differences consist of unused authorizations for multi-year projects (capital outlay and work projects) and restricted revenue not authorized/used, which includes Revenues that by statute, are restricted for use to a particular program or activity. Generally, the expenditure of the restricted revenue is subject to annual legislative appropriation. However, the restricted revenue may also be used in subsequent years to finance expenditures in multi-year appropriations and for encumbrances carried forward.

Restricted revenue balances authorized in the Variances category represent restricted revenue carry-overs that could have been used in the current period but were not.

NOTE: This schedule was prepared on the Statutory/Budgetary basis.

Michigan

GROSS SPENDING AUTHORITY	LESS: TIMING DIFFERENCES* MULTI-YEAR PROJECTS	"BUDGET"	"ACTUAL"		"VARIANCES"		
		AS PRESENTED IN STATEMENTS	EXPENDED/ TRANSFERRED	ENCUMBERED BALANCES FORWARD	RESTRICTED REVENUE BALANCES AUTHORIZED	LAPSES	OVEREXPENDED
\$ 130,138	\$ (11,185)	\$ 118,953	\$ 117,924	\$ 282	\$ 65	\$ 682	\$ -
252,550	-	252,550	246,622	3,891	396	1,642	-
93,585	-	93,585	91,650	299	-	1,636	-
55,024	-	55,024	50,125	2,294	-	2,605	-
12,587	-	12,587	12,389	35	-	164	-
25,904	-	25,904	24,163	286	-	1,455	-
1,837,998	(3)	1,837,995	1,829,853	-	-	8,143	-
9,913,885	-	9,913,885	9,951,949	169	77	8,833	(47,142)
1,694,995	-	1,694,995	1,623,449	25,466	-	46,080	-
457,397	-	457,397	454,593	2	-	2,803	-
181,835	-	181,835	177,821	1,839	-	2,174	-
4,860	-	4,860	4,673	-	-	186	-
3,991,951	(7,795)	3,984,155	3,942,349	3,322	-	39,610	(1,125)
58,753	-	58,753	57,234	148	937	433	-
716,658	-	716,658	715,129	200	155	1,174	-
538,516	(7,916)	530,601	513,616	8,582	-	8,403	-
102,291	-	102,291	97,668	116	3,536	972	-
79,002	-	79,002	77,043	987	-	972	-
180,669	(5,775)	174,894	164,985	8,005	202	1,701	-
406,726	(0)	406,726	401,853	1,823	-	3,049	-
3,672	-	3,672	3,672	-	-	-	-
2,479,178	(1,286)	2,477,892	2,457,629	6,378	3,499	10,386	-
8,500	-	8,500	28,867	-	-	(20,367)	-
-	-	(551,792)	(551,792)	-	-	-	-
<u>\$ 23,226,676</u>	<u>\$ (33,961)</u>	<u>\$ 22,640,922</u>	<u>\$ 22,493,463</u>	<u>\$ 64,124</u>	<u>\$ 8,866</u>	<u>\$ 122,737</u>	<u>\$ (48,268)</u>

# Michigan

**SOURCE AND DISPOSITION OF  
GENERAL FUND/GENERAL PURPOSE AUTHORIZATIONS  
APPROPRIATION YEAR 2004  
FISCAL YEAR ENDED SEPTEMBER 30, 2004  
(In Thousands)**

<u>BRANCH AND DEPARTMENT</u>	<u>CURRENT LEGISLATIVE APPROPRIATION</u>	<u>BUDGETARY TRANSFERS IN/OUT</u>	<u>BUDGETARY ADJUSTMENT</u>
Legislative Branch	\$ 114,073	\$ -	\$ 247
Judicial Branch	160,216	-	-
Executive Branch:			
Agriculture	30,259	2,025	-
Attorney General	30,260	-	-
Civil Rights	11,720	-	-
Civil Service	7,833	-	-
Colleges and Universities Grants	1,833,570	-	-
Community Health	2,609,169	1,415	675
Corrections	1,609,272	-	-
Education	406,860	-	-
Environmental Quality	53,581	-	1,034
Executive Office	4,860	-	-
Family Independence Agency	1,088,979	2,357	26,911
History, Arts & Libraries	44,202	-	-
Labor and Economic Growth	81,372	(3,084)	3,033
Management and Budget	346,089	113	1,609
Military and Veterans Affairs	36,329	-	-
Natural Resources	31,339	-	-
State	26,698	-	-
State Police	237,510	(802)	-
Transportation	-	-	-
Treasury	112,213	-	-
Payroll expenditure adjustment	-	-	-
<b>TOTAL</b>	<b>\$ 8,876,403</b>	<b>\$ 2,025</b>	<b>\$ 33,509</b>

Michigan

GROSS SPENDING AUTHORITY	"ACTUAL"			"VARIANCES"	
	EXPENDED/ TRANSFERRED	ENCUMBERED BALANCES FORWARD	MULTI-YEAR PROJECT BALANCES FORWARD	LAPSES	OVEREXPENDED
\$ 114,320	\$ 106,648	\$ 237	\$ 6,856	\$ 579	\$ -
160,216	156,131	2,898	-	1,188	-
32,284	31,241	137	-	906	-
30,260	26,707	1,216	-	2,338	-
11,720	11,521	35	-	164	-
7,833	7,281	97	-	455	-
1,833,570	1,825,427	-	-	8,142	-
2,611,259	2,624,046	169	-	8,714	(21,669)
1,609,272	1,561,854	6,896	-	40,522	-
406,860	404,059	-	-	2,801	-
54,615	52,175	349	-	2,091	-
4,860	4,673	-	-	186	-
1,118,247	1,070,213	2,556	7,795	38,809	(1,125)
44,202	43,700	134	-	368	-
81,321	80,103	148	-	1,070	-
347,811	339,386	56	1,934	6,434	-
36,329	35,260	104	-	965	-
31,339	30,654	11	-	674	-
26,698	20,157	1,419	3,514	1,609	-
236,709	233,324	781	-	2,604	-
-	-	-	-	-	-
112,213	95,083	5,610	1,286	10,235	-
-	20,367	-	-	(20,367)	-
<u>\$ 8,911,937</u>	<u>\$ 8,780,008</u>	<u>\$ 22,852</u>	<u>\$ 21,386</u>	<u>\$ 110,486</u>	<u>\$ (22,795)</u>

**REVENUE, BOND PROCEEDS, AND CAPITAL LEASE ACQUISITIONS**  
**GENERAL AND SPECIAL REVENUE FUNDS**  
 LAST TEN YEARS  
 SEPTEMBER 30, 2004  
 (In Thousands)

<u>SOURCE</u>	<u>1994-1995</u>	<u>1995-1996</u>	<u>1996-1997</u>	<u>1997-1998</u>
<b>TAXES:</b>				
Sales	\$ 4,884,198	\$ 5,171,598	\$ 5,389,802	\$ 5,617,331
Personal Income (net of tax expenditures)	5,013,472	5,438,788	5,930,404	6,316,125
Amount reported as tax expenditures	459,600	429,618	470,000	477,000
Single Business	2,130,395	2,187,418	2,224,319	2,349,148
Use	942,885	1,034,886	1,092,216	1,159,258
State Education (Property)	1,155,601	1,272,288	1,348,832	1,256,874
Real Estate Transfer	-	-	-	227,852
Liquor, Beer, Wine, and Tobacco Products	734,645	698,007	662,287	689,451
Casino Gaming Wagering	-	-	-	-
Telephone and Telegraph Company	127,189	135,412	145,805	151,964
Insurance Company	213,638	205,996	182,389	142,565
Motor Vehicle and Fuel	1,338,692	1,334,349	1,424,963	1,695,068
Quality Assurance Assessment	-	-	-	-
Other	468,399	611,716	569,300	543,391
<b>TOTAL TAXES</b>	<b>17,468,714</b>	<b>18,520,076</b>	<b>19,440,316</b>	<b>20,626,025</b>
<b>FEDERAL AGENCIES</b>	<b>6,532,050</b>	<b>7,469,416</b>	<b>7,653,495</b>	<b>7,679,490</b>
<b>LOCAL AGENCIES</b>	<b>183,282</b>	<b>197,972</b>	<b>168,247</b>	<b>165,443</b>
<b>SPECIAL MEDICAID REIMBURSEMENTS</b>	<b>490,517</b>	<b>598,654</b>	<b>593,402</b>	<b>595,179</b>
<b>SERVICES</b>	<b>122,532</b>	<b>120,415</b>	<b>114,354</b>	<b>107,623</b>
<b>LICENSES AND PERMITS</b>	<b>348,873</b>	<b>353,266</b>	<b>353,492</b>	<b>376,909</b>
<b>MISCELLANEOUS</b>	<b>655,578</b>	<b>701,004</b>	<b>655,963</b>	<b>700,553</b>
<b>TOTAL REVENUE</b>	<b>25,801,546</b>	<b>27,960,804</b>	<b>28,979,270</b>	<b>30,241,222</b>
<b>PROCEEDS FROM BOND ISSUES AND BOND ANTICIPATION NOTES</b>	<b>541,881</b>	<b>6,149</b>	<b>54,021</b>	<b>251,454</b>
<b>CAPITAL LEASE ACQUISITIONS</b>	<b>23,782</b>	<b>71,810</b>	<b>54,157</b>	<b>29,027</b>
<b>PROCEEDS FROM SALE OF CAPITAL ASSETS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL REVENUE, BOND PROCEEDS, CAPITAL LEASE ACQUISITIONS, AND PROCEEDS FROM SALE OF CAPITAL ASSETS</b>	<b>\$ 26,367,209</b>	<b>\$ 28,038,762</b>	<b>\$ 29,087,448</b>	<b>\$ 30,521,703</b>

NOTES: (1) Beginning in fiscal year 1996-97, the State began reporting the federal share of child support collections as federal revenue, rather than as miscellaneous revenue. Prior year amounts have been reclassified to include the federal revenue which were previously reported on the "Miscellaneous" line.

(2) Beginning in fiscal year 1997-98, the State began reporting real estate transfer tax separately from State education (property) tax. Amounts of the real estate transfer tax for years prior to 1997-98 are not available.

(3) Beginning in fiscal year 2003-2004, the State began reporting quality assurance assesment revenue as a tax revenue, rather than as miscellaneous revenue. Amounts for years prior to 2003-2004 are not available.

# Michigan

1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
\$ 5,901,733	\$ 6,277,498	\$ 6,352,306	\$ 6,439,894	\$ 6,422,642	\$ 6,473,522
6,907,933	7,144,211	6,749,373	6,095,989	5,811,843	5,873,365
486,100	502,100	532,800	615,100	707,800	702,700
2,360,533	2,324,868	2,022,882	1,983,795	1,843,072	1,841,010
1,283,017	1,355,389	1,333,607	1,306,365	1,229,838	1,316,504
1,273,459	1,381,420	1,489,552	1,583,660	2,127,513	1,824,493
261,696	257,093	252,894	253,075	275,513	317,480
739,972	736,859	732,673	808,225	1,035,322	1,142,217
-	-	75,415	91,915	90,945	99,455
150,334	149,206	152,523	137,343	124,168	101,315
199,463	191,946	200,756	227,081	231,076	230,272
1,784,970	1,829,979	1,852,964	1,917,481	1,946,225	2,015,567
-	-	-	-	-	325,188
609,665	714,899	657,279	610,485	580,001	536,839
21,958,875	22,865,469	22,405,023	22,070,408	22,425,957	22,799,928
7,902,699	8,571,625	9,566,353	10,202,344	10,812,852	11,579,388
183,822	173,882	227,996	248,867	230,728	239,815
690,799	1,059,343	1,155,374	1,109,233	932,658	704,551
113,415	110,294	115,346	121,849	121,198	148,140
383,778	393,006	391,655	408,746	417,786	555,853
769,236	1,032,248	1,281,281	1,150,187	1,390,001	1,109,630
32,002,624	34,205,867	35,143,027	35,311,635	36,331,180	37,137,308
-	82,099	854,240	424,472	352,254	405,881
57,609	22,330	23,014	237,272	16,052	19,661
-	-	-	-	-	11,513
<u>\$ 32,060,233</u>	<u>\$ 34,310,295</u>	<u>\$ 36,020,281</u>	<u>\$ 35,973,378</u>	<u>\$ 36,699,486</u>	<u>\$ 37,574,362</u>

**Michigan**

**SCHEDULE OF EXPENDITURES BY FUNCTION**  
**GENERAL AND SPECIAL REVENUE FUNDS - STATE FUNDS**  
**LAST TEN YEARS**  
**SEPTEMBER 30, 2004**  
(In Thousands)

	<u>1994 - 1995</u>	<u>1995 - 1996</u>	<u>1996 - 1997</u>	<u>1997 - 1998</u>
Current:				
General government	\$ 970,101	\$ 1,061,865	\$ 1,060,633	\$ 1,003,062
Education	9,781,080	10,219,613	10,568,759	11,462,128
Family independence services (1)	7,389,722	8,619,094	3,496,468	3,262,649
Public safety and corrections	1,557,854	1,683,618	1,738,682	1,720,105
Conservation, environment, recreation, and agriculture	639,425	511,459	440,656	446,377
Labor, commerce, and regulatory	704,191	716,571	756,754	763,484
Health services (1)	1,471,392	1,501,080	6,563,740	6,781,614
Transportation	1,352,745	1,392,778	1,459,704	1,556,082
Tax expenditures	459,600	429,618	470,000	477,000
Capital outlay	625,390	608,159	716,835	898,509
Intergovernmental - revenue sharing	1,190,838	1,281,089	1,301,153	1,381,009
Debt service:				
Bond interest and fiscal charges	-	-	-	-
Capital lease payments	<u>38,523</u>	<u>44,932</u>	<u>57,562</u>	<u>58,905</u>
Total Expenditures	<u>\$ 26,180,861</u>	<u>\$ 28,069,878</u>	<u>\$ 28,630,947</u>	<u>\$ 29,810,925</u>

NOTE: (1) Beginning in fiscal year 1996-97 the State consolidated the Medical Services Administration (MSA), the Departments of Public Health and Mental Health to form the Department of Community Health and accounted for the combined operations as "Health services." MSA and Public Health expenditures were previously reported as "Health and welfare," which was renamed to "Family independence services." Prior year amounts have not been restated.

# Michigan

<u>1998 - 1999</u>	<u>1999 - 2000</u>	<u>2000 - 2001</u>	<u>2001 - 2002</u>	<u>2002 - 2003</u>	<u>2003 - 2004</u>
\$ 1,072,735	\$ 1,071,643	\$ 1,270,363	\$ 1,541,175	\$ 1,207,672	\$ 1,116,072
11,827,226	12,436,812	13,975,247	14,547,772	14,624,856	14,305,112
3,229,377	3,336,835	3,596,001	3,791,373	3,875,371	3,932,475
1,908,871	1,983,001	2,155,735	2,132,401	2,112,194	2,118,888
482,901	564,738	617,703	638,615	581,168	571,909
720,070	740,687	881,069	891,817	891,644	902,903
7,100,795	7,692,354	8,525,435	8,891,480	9,270,484	9,676,268
1,645,123	1,663,318	2,058,191	2,117,153	2,080,361	2,211,490
486,100	502,100	532,800	615,100	707,800	702,700
1,144,575	1,196,211	1,267,158	1,232,479	1,085,686	1,046,339
1,410,400	1,494,016	1,555,799	1,517,303	1,451,374	1,305,146
-	-	2,219	1,240	-	-
<u>59,287</u>	<u>52,027</u>	<u>48,820</u>	<u>51,387</u>	<u>67,723</u>	<u>50,840</u>
<u><u>\$ 31,087,460</u></u>	<u><u>\$ 32,733,741</u></u>	<u><u>\$ 36,486,541</u></u>	<u><u>\$ 37,969,296</u></u>	<u><u>\$ 37,956,335</u></u>	<u><u>\$ 37,940,143</u></u>

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL OBLIGATION  
BONDED DEBT TO TOTAL GENERAL FUND EXPENDITURES AND TRANSFERS**  
LAST TEN YEARS  
SEPTEMBER 30, 2004  
(In Thousands)

<u>FISCAL YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST AND FISCAL CHARGES</u>	<u>TOTAL DEBT SERVICE EXPENDITURES</u>	<u>TOTAL GENERAL FUND EXPENDITURES AND TRANSFERS</u>	<u>RATIO OF DEBT SERVICE EXPENDITURES TO GENERAL FUND EXPENDITURES AND TRANSFERS</u>
1994-1995	\$ 23,584	\$ 19,081	\$ 42,665	\$ 17,549,649	.24 %
1995-1996	21,097	33,150	54,246	18,755,877	.29 %
1996-1997	29,857	34,143	64,000	18,571,900	.34 %
1997-1998	31,141	32,676	63,817	18,847,724	.34 %
1998-1999	34,751	45,055	79,806	20,027,355	.40 %
1999-2000	36,035	49,584	85,619	20,942,926	.41 %
2000-2001	42,392	49,053	91,445	22,275,036	.41 %
2001-2002	65,811	51,702	117,513	23,048,459	.51 %
2002-2003	27,012	51,915	78,927	22,443,621	.35 %
2003-2004	227,362	59,421	286,783	22,513,124	1.27 %

NOTE: Principal and interest on short-term general obligation notes are not included in this bonded debt schedule.

# Michigan

## NET GENERAL OBLIGATION BONDED DEBT PER CAPITA LAST TEN YEARS SEPTEMBER 30, 2004 (In Thousands)

<u>FISCAL YEAR</u>	<u>POPULATION*</u>	<u>GROSS BONDED DEBT</u>	<u>LESS DEBT SERVICE FUNDS</u>	<u>NET BONDED DEBT</u>	<u>NET BONDED DEBT PER CAPITA (IN DOLLARS)</u>
1994-1995	9,660	\$ 719,222	\$ -	\$ 719,222	\$ 74.45
1995-1996	9,739	702,486	-	702,486	72.13
1996-1997	9,785	677,277	-	677,277	69.22
1997-1998	9,820	901,103	-	901,103	91.76
1998-1999	9,864	869,788	-	869,788	88.18
1999-2000	9,956	930,279	-	930,279	93.44
2000-2001	10,005	1,031,802	-	1,031,802	103.13
2001-2002	10,043	1,119,561	-	1,119,561	111.48
2002-2003	10,080	1,413,443	787	1,412,656	140.14
2003-2004	Unavailable	1,527,536	810	1,526,726	Unavailable

\*SOURCES: U. S. Census Bureau, Population Division.  
Department of History, Arts, and Libraries.



**STATE BUILDING AUTHORITY (SBA) BONDED DEBT PER CAPITA**  
**LAST TEN YEARS**  
**SEPTEMBER 30, 2004**  
(In Thousands)

<u>FISCAL YEAR</u>	<u>POPULATION*</u>	<u>SBA GROSS BONDED DEBT</u>	<u>LESS SBA DEBT SERVICE FUNDS</u>	<u>SBA NET BONDED DEBT</u>	<u>SBA NET BONDED DEBT PER CAPITA (IN DOLLARS)</u>
1994-1995	9,660	\$ 1,453,420	\$ 170,478	\$ 1,282,942	\$ 132.81
1995-1996	9,739	1,478,896	171,244	1,307,652	134.27
1996-1997	9,785	1,616,700	193,219	1,423,481	145.48
1997-1998	9,820	1,996,787	245,050	1,751,737	178.38
1998-1999	9,864	1,945,086	220,745	1,724,341	174.81
1999-2000	9,956	1,825,918	233,540	1,592,378	159.94
2000-2001	10,005	2,159,314	226,906	1,932,408	193.14
2001-2002	10,043	2,582,134	274,813	2,307,321	229.74
2002-2003	10,080	2,606,760	204,379	2,402,381	238.33
2003-2004	Unavailable	2,544,580	193,507	2,351,073	Unavailable

NOTE: State Building Authority (SBA) bonds are revenue dedicated bonds whose debt service requirements are financed by General Fund appropriations for rent of leased property, excess bond proceeds, and investments earnings. The bonds of the Authority are not considered direct debts or obligations of the State.

\*SOURCES: U. S. Census Bureau, Population Division.  
Department of History, Arts, and Libraries.

**DEBT SERVICE COVERAGE**  
**COMPREHENSIVE TRANSPORTATION FUND RELATED BONDS**  
**LAST TEN YEARS**  
**SEPTEMBER 30, 2004**  
(In Millions)

	1994-1995	1995-1996	1996-1997	1997-1998
Constitutionally Restricted				
Transportation Fund Revenues:				
Motor Fuel Taxes	\$ 756.3	\$ 761.7	\$ 821.0	\$ 1,022.7
Registration Taxes	521.2	564.5	596.5	664.8
Miscellaneous Fees	71.8	57.4	54.4	59.1
Total	1,349.3	1,383.6	1,471.9	1,746.6
Less Deductions	103.8	113.4	116.9	117.9
Remaining Balance	1,245.5	1,270.2	1,355.0	1,628.7
Portion of Balance Credited to Comprehensive Transportation Fund (excluding interest)	125.8	129.0	132.2	145.3
Motor Vehicle Related Sales Tax Revenues	\$ 747.1	\$ 837.5	\$ 843.4	\$ 864.7
Allocation to Comprehensive Transportation Fund	55.6	58.4	58.8	60.3
Constitutionally Restricted Revenues Credited to Comprehensive Transportation Fund	\$ 181.4	\$ 187.4	\$ 191.0	\$ 205.6
Plus Other Revenues (primarily interest)	15.8	7.9	5.0	6.1
Money Available for Debt Service	197.2	195.3	196.1	211.7
Actual Annual Debt Service (1)	20.6	23.1	22.5	23.1
Debt Service Coverage	9.6 x	8.5 x	8.7 x	9.2 x

Note: (1) The table above does not include debt service on refunded bonds.

Source: Michigan Department of Transportation.

# Michigan

<u>1998-1999</u>	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>
\$ 1,066.3	\$ 1,066.5	\$ 1,067.6	\$ 1,082.8	\$ 1,093.2	\$ 1,073.3
709.9	755.1	777.9	827.3	844.7	933.8
57.0	55.2	54.7	58.0	56.7	51.4
<u>1,833.2</u>	<u>1,876.7</u>	<u>1,900.2</u>	<u>1,968.1</u>	<u>1,994.5</u>	<u>2,058.4</u>
121.2	128.0	132.0	173.4	176.8	110.9
<u>1,712.0</u>	<u>1,748.7</u>	<u>1,768.2</u>	<u>1,794.7</u>	<u>1,817.8</u>	<u>1,947.6</u>
<u>153.0</u>	<u>156.9</u>	<u>159.2</u>	<u>160.5</u>	<u>162.3</u>	<u>166.4</u>
<u>\$ 906.7</u>	<u>\$ 999.3</u>	<u>\$ 1,057.0</u>	<u>\$ 1,130.0</u>	<u>\$ 1,708.4</u>	<u>\$ 1,082.7</u>
63.2	69.7	73.7	78.8	79.4	65.0
<u>\$ 216.3</u>	<u>\$ 226.6</u>	<u>\$ 232.9</u>	<u>\$ 239.3</u>	<u>\$ 241.8</u>	<u>\$ 231.3</u>
6.6	3.1	3.5	0.9	1.4	3.6
<u>222.9</u>	<u>229.7</u>	<u>236.4</u>	<u>240.3</u>	<u>243.2</u>	<u>234.9</u>
<u>21.9</u>	<u>21.2</u>	<u>21.7</u>	<u>21.4</u>	<u>23.6</u>	<u>30.3</u>
10.2 x	10.8 x	10.9 x	11.3 x	10.3 x	7.8 x

# Michigan

## DEBT SERVICE COVERAGE STATE TRUNKLINE FUND RELATED BONDS LAST TEN YEARS SEPTEMBER 30, 2004 (In Millions)

	1994-1995	1995-1996	1996-1997	1997-1998
Constitutionally Restricted Transportation Fund Revenues:				
Motor Fuel Taxes	\$ 756.3	\$ 761.7	\$ 821.0	\$ 1,022.7
Registration Taxes	521.2	564.5	596.5	664.8
Miscellaneous Fees	71.8	57.4	54.4	59.1
Total	1,349.3	1,383.6	1,471.9	1,746.6
Less Deductions:				
Critical Bridge Debt Service	1.3	1.6	1.6	1.6
P.A. 51 Dedicated State Trunkline Fund Debt Service (1)	-	-	-	43.0
Collection Costs	90.2	99.8	101.2	55.4
Waterways/Recreational Improvement Fund	13.4	13.6	14.1	17.9
Comprehensive Transportation Fund (excluding interest)	125.8	129.0	132.2	145.3
Local Program Fund	33.0	33.0	33.0	33.0
Critical Bridge Fund	5.0	5.0	5.0	5.0
Economic Development Fund	36.8	36.8	36.8	40.3
Total Deductions	305.5	318.8	323.9	341.5
Constitutionally Restricted Revenues Available for Distribution	1,043.8	1,064.7	1,148.1	1,405.1
Plus Other Revenues (primarily interest)	12.7	18.8	59.7	13.9
Total Money Available for Distribution	1,056.5	1,083.5	1,207.8	1,419.0
Distributions to:				
Cities and Villages	233.2	239.5	270.5	302.7
County Road Commissions	411.4	421.4	477.9	534.3
State Trunkline Fund	411.9	422.7	459.3	582.0
Money Available for Debt Service				
State Trunkline Fund	411.9	422.7	459.3	582.0
P.A. 51 Dedicated State Trunkline Fund Debt Service (1)	-	-	-	43.0
Economic Development Fund	36.8	36.8	36.8	40.3
Local Program Fund	33.0	33.0	33.0	33.0
Critical Bridge Fund	-	-	-	1.6
Total Available for Debt Service	481.7	492.5	529.0	699.9
Actual Annual Debt Service (2)	42.5	58.2	59.7	61.3
Debt Service Coverage	11.3 x	8.5 x	8.9 x	11.4 x

Note: (1) Beginning fiscal year 1997-98, the formula for the tax distribution was revised to apportion and appropriate \$43 million from the Michigan Transportation Fund to the State Trunkline Fund for debt service costs on State of Michigan projects. Prior year amounts are not available.

(2) The table above excludes amounts related to refunded bonds and federally funded debt.

SOURCE: Michigan Department of Transportation.

# Michigan

<u>1998-1999</u>	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>
\$ 1,066.3	\$ 1,066.5	\$ 1,067.6	\$ 1,082.8	\$ 1,093.2	\$ 1,073.3
709.9	755.1	777.9	827.3	844.7	933.8
57.0	55.2	54.7	58.0	56.7	51.4
<u>1,833.2</u>	<u>1,876.7</u>	<u>1,900.2</u>	<u>1,968.1</u>	<u>1,994.5</u>	<u>2,058.4</u>
1.4	2.4	2.4	2.4	2.2	2.2
43.0	43.0	43.0	43.0	43.0	43.0
58.4	64.0	63.1	109.4	113.1	42.2
18.4	18.6	18.5	18.7	18.5	18.4
153.0	156.9	159.2	160.5	162.3	166.4
33.0	33.0	33.0	33.0	33.0	33.0
5.0	5.0	5.0	5.0	5.0	5.0
40.3	40.3	40.3	40.3	40.3	40.3
<u>352.5</u>	<u>363.2</u>	<u>364.5</u>	<u>412.2</u>	<u>417.4</u>	<u>350.5</u>
1,480.7	1,513.6	1,535.7	1,555.9	1,577.2	1,707.9
11.6	15.8	13.4	6.1	5.9	6.2
<u>1,492.3</u>	<u>1,529.4</u>	<u>1,549.1</u>	<u>1,562.0</u>	<u>1,583.1</u>	<u>1,714.1</u>
318.7	326.7	331.9	332.3	341.6	366.9
561.0	575.0	582.9	588.6	594.7	642.5
612.7	627.7	634.3	641.1	646.7	704.8
612.7	627.7	634.3	641.1	646.7	704.8
43.0	43.0	43.0	43.0	43.0	43.0
40.3	40.3	40.3	40.3	40.3	40.3
33.0	33.0	33.0	33.0	33.0	33.0
1.4	2.4	2.4	2.4	2.2	2.2
<u>730.4</u>	<u>746.4</u>	<u>753.0</u>	<u>759.7</u>	<u>765.1</u>	<u>823.2</u>
57.8	47.2	48.2	59.4	65.7	67.8
12.6 x	15.8 x	15.6 x	12.8 x	11.6 x	12.1 x





*Michael M. Smith*

Michigan's Capitol in Winter



*Travel Michigan*

Michigan's Capitol in Spring/Summer



Economic and Social Data

GENERAL INFORMATION

On January 26, 1837, Michigan was admitted to the Union as the twenty-sixth state. It is located in the East North Central Census Region and is bordered by Canada and the states of Ohio, Indiana, and Wisconsin. Michigan contains 58,110 square miles of land mass (exclusive of 1,305 square miles of inland water and 38,575 square miles of Great Lakes water area) with 3,288 miles of shoreline on four of the five Great Lakes. A combined water and land area of 97,990 square miles makes it the tenth largest state.

POPULATION

The following table presents estimated population trends for Michigan for the last ten years (in thousands):

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Population	9,584	9,660	9,739	9,785	9,820	9,864	9,956	10,005	10,043	10,080
Percent Change	.6%	.8%	.8%	.5%	.4%	.4%	.9%	.5%	.4%	.4%

Source: U.S. Census Bureau, Population Division.

WEALTH

The following table presents estimated per capita income, retail sales, taxable property, and bank deposits data for the last ten years:

	Per Capita Income (a)		Retail Sales (b) (In Billions)	State Equalized Value of Taxable Property (c) (In Billions)	Bank Deposits (d) (In Billions)
YEAR	MI	U.S.	U.S.	MI	MI
1994	22,694	22,172	2,156.3	175.5	117.8
1995	23,508	23,076	2,268.3	186.4	117.4
1996	24,306	24,175	2,412.7	200.3	116.9
1997	25,367	25,334	2,520.3	216.7	118.2
1998	26,919	26,883	2,644.8	237.4	123.4
1999	28,095	27,939	2,878.9	261.0	122.3
2000	29,553	29,847	3,070.2	284.4	136.5
2001	29,913	30,580	3,156.8	312.9	137.1
2002	30,072	30,795	3,230.1	343.7	129.7
2003	31,196	31,459	3,400.0	369.5	162.0

Sources:

- (a) U.S. Department of Commerce, Bureau of Economic Analysis, September 2004 release.
  - (b) U.S. Census Bureau, Monthly Retail Indicators Branch, revised November 2004.
  - (c) State of Michigan, Department of Treasury, State Tax Commission.
  - (d) State of Michigan, Department of Labor & Economic Growth, Office of Financial and Insurance Services, Office of Financial Evaluation, Bank and Trust Division.
- The amounts shown include state and national banks, state and federal credit unions, state and federal savings banks, and saving and loan associations.

Economic and Social Data (Continued)

EMPLOYMENT

The following table presents estimated employment data (expressed in thousands) for the State of Michigan for the last ten calendar years:

Year	Total Labor Force	Total Employment	Unemployment	Unemployment Rate
1994	4,811	4,527	284	5.9%
1995	4,798	4,541	257	5.3%
1996	4,881	4,643	238	4.9%
1997	4,944	4,736	208	4.2%
1998	5,010	4,817	193	3.9%
1999	5,121	4,928	193	3.8%
2000	5,170	4,987	183	3.5%
2001	5,157	4,886	271	5.3%
2002	5,001	4,691	310	6.2%
2003	5,042	4,674	368	7.3%

Source: Michigan Department of Labor & Economic Growth and U.S. Department of Labor, Bureau of Labor Statistics.

Estimated wage and salary employees for the last five calendar years consisted of the following (in thousands):

<u>Wage and Salary Employment</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Goods Producing:					
Natural Resources and Mining	9.6	9.5	9.3	8.6	8.2
Construction	195.9	209.6	206.1	199.6	190.0
Manufacturing	898.1	896.7	819.6	760.0	727.2
Total Goods Producing	1,103.7	1,115.7	1,035.0	968.2	925.3
Service-Providing:					
Trade, Transportation, and Utilities:					
Wholesale Trade	183.6	186.0	180.4	175.4	173.6
Retail Trade	550.6	559.8	548.8	530.7	516.6
Transportation and Utilities	134.1	135.4	132.0	128.2	125.1
Information	73.9	76.7	75.8	73.8	70.6
Financial Activities:					
Finance and Insurance	153.0	152.8	154.8	159.2	162.5
Real Estate and Rental and Leasing	53.9	56.6	55.5	55.7	56.4
Professional and Business Services:					
Professional, Scientific, and Technical Services	265.9	276.1	266.7	256.2	249.3
Management of Companies and Enterprises	70.9	70.5	69.1	69.5	68.3
Administrative and Support Services	267.5	279.7	256.8	257.0	257.8
Other/Waste Management Etc.	12.1	12.5	11.9	11.7	11.7
Educational and Health Services:					
Educational Services	52.1	54.3	59.5	65.9	73.1
Health Care and Social Assistance	439.6	447.9	453.9	467.6	471.1
Leisure and Hospitality:					
Accommodation and Food Services	328.8	336.4	332.7	336.2	335.7
Other	57.0	64.0	61.6	61.7	62.3
Other Services	167.7	168.1	175.1	174.2	171.2
Total Private Service Providing	2,810.6	2,876.6	2,834.6	2,823.0	2,805.1
Government	667.6	681.6	686.3	686.6	681.4
Total Service-Providing	3,478.3	3,558.2	3,520.9	3,509.6	3,486.5
Total Wage and Salary Employment	4,581.9	4,673.9	4,555.9	4,477.8	4,411.8

Source: Michigan Department of Labor & Economic Growth (wage and salary benchmark of March 2003) and U.S. Department of Labor, Bureau of Labor Statistics.

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